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FINANCIAL TIMES

Europe's Business Newspaper — THURSDAY DECEMBER 15 1994 — D8523A

Amtrak to axe 5,500 jobs and reduce services

Amtrak, the US public sector train operator, is to axe about 5,500 jobs and shed 21 per cent of its passenger service in an effort to eliminate a projected $200m deficit in the current tax year. Amtrak said most of the cuts would be in the frequency of services, but some inter-city routes would be eliminated. Thomas Downs, Amtrak president, said the rising deficit and shrinking ticket sales meant the system could no longer afford to maintain its service to 540 cities across the US. Page 22

Bid battle looms for UK utility: UK engineering and property group Trafalgar House is considering a bid for Northern Electric which could prove the first hostile bid for a privatised UK utility. Page 23; Lex, Page 22; Editorial Comment, Page 21; Trafalgar House stalks N Electric, Page 31

Euro Disney cuts prices: Euro Disney said that from April it would cut the entrance price to its lossmaking theme park outside Paris, adding that visitor numbers had risen this year. The news boosted its shares on the Paris bourse. Page 24; World stocks, Page 50

Smaller Efta 'can survive': The European Free Trade Association, which will lose three of its seven members and two-thirds of its population to the European Union next month, can survive in truncated form, ministers of the four remaining nations decided. Page 22

Stock option plan dropped: A controversial accounting proposal under which US companies would have had to deduct the cost of stock options from their profits was dropped yesterday by the Financial Accounting Standards Board. Page 26

Figures fuel UK rate fears: Official figures that show inflation and earnings edging upward have fuelled fears that UK interest rates may have to rise further. Page 7

UK runner banned after positive drug test:

The British Athletic Federation confirmed a four-year ban on former Commonwealth 800 metres runner Diane Modahl, who tested positive for drugs in Lisbon in June. Her urine was said to contain high levels of the male hormone testosterone. The BAF rejected her argument that the sample had been mishandled at a Lisbon laboratory, but last night Mrs Modahl said she would appeal against the decision.

Japanese pay high price for trade barriers: Japan's trade barriers cost the country's consumers between $75bn and $100bn a year at prevailing exchange rates in 1989, a study by three Japanese economists said. Page 5

Indian minister quits: India's minister for civil supplies quit over a sugar import scandal. A.K. Antony resigned after it emerged that an official report on the scandal had named him along with other senior officials. Elections catch up with India's slow reforms, Page 4

Fokker shares fall: Fokker shares lost more than 15 per cent after the Dutch aircraft maker controlled by Germany's Deutsche Aerospace said it would make scarcely any progress towards cutting losses this year. Page 24

GE Capital, financial services arm of General Electric of the US, has made its first entry into German consumer finance by taking control of Service Bank, the finance arm of store group Kaufhof. Page 23

Two killed in eviction row: Two Portuguese officials were shot dead when they tried to evict a tenant from a house near the port city of Setúbal. The tenant later surrendered.

Missing lawyer's body found: A Kurdish lawyer who disappeared in the Turkish capital, Ankara, was found shot dead. A former official of a banned pro-Kurdish party, Faik Candan was the third Kurdish lawyer this year to have been murdered mysteriously in Istanbul and Ankara.

China dam project starts: Chinese premier Li Peng broke the ground for the Three Gorges dam that will cut the Yangtze river. The project will involve relocating more than 1m people to make way for a huge inland lake.

Mercedes threatens to sue: German carmaker Mercedes-Benz threatened to sue Greece for shutting its main Athens office and putting a sign outside branding the company a tax evader.

■ STOCK MARKET INDICES		
FT-SE 100:	2,980.6	(+34.2)
Yield	4.32	
FT-SE Eurotrack 100	1,316.82	(+7.52)
FT-SE-A All-Share	1,481.19	(+1.0%)
Nikkei	18,931.49	(+56.01)
New York lunchtime:		
Dow Jones Ind Ave	3,745.95	(+30.61)
S&P Composite	454.58	(+4.35)
■ US LUNCHTIME RATES		
Federal Funds:	5¹⁄₂%	
3-mo Treas Bills: Yld	5.811%	
Long Bond	95⅜	
Yield	7.825%	
■ LONDON MONEY		
3-mo Interbank	6⁷⁄₁₆%	(6¹⁄₂%)
Life long gilt future:	Mar 101¹⁵⁄₃₂	(Mar 101¹³⁄₃₂)
■ NORTH SEA OIL (Argus)		
Brent 15-day	$16.05	(16.0)
■ GOLD		
New York Comex	$381.5	(380.3)
London	$379.1	(378.5)

■ STERLING		
New York lunchtime:		
$	1.58215	
London:		
$	1.5822	(same)
DM	2.4513	(2.4569)
FFr	8.4507	(8.4677)
SFr	2.0723	(2.0813)
Y	156.626	(156.832)
£ Index	80.3	(80.4)
■ DOLLAR		
New York lunchtime:		
DM	1.57815	
FFr	5.413	
SFr	1.3285	
Y	100.33	
London:		
DM	1.5691	(1.5728)
FFr	5.4095	(5.4205)
SFr	1.3265	(1.3324)
Y	100.26	(100.395)
$ Index	63.4	(same)
Tokyo close Y 100.38		

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lev80.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	KSL60
Cyprus	C£1.10	India	Rs60	Nigeria	Naira90	S. Africa	R12.00
Czech Rp	CZK50	Israel	Shk6.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Estonia	EKr 20	Jordan	JD1.50	Philippines	Pes50	Syria	S£50.00
Finland	FM14	Kuwait	Fils.625	Poland	Zl 38,000	Tunisia	Din1.500
France	FFr9.50	Lebanon	US$1.50	Portugal (m'land)	Es225	Turkey	L90000
Germany	DM3.60	Lux	LFr65			UAE	Dh12.00

IRA 'must renounce weapons' to join peace talks

By David Owen, John Murray Brown and Stewart Dalby in Belfast

The British government is determined to ensure that IRA weapons are "no longer available for use in terrorist attacks" before Sinn Fein, the IRA's political wing, can enter talks on Northern Ireland's future.

Speaking on the eve of talks in Belfast between the government and loyalist representatives, Mr Major said he would not insist on the surrender of IRA weapons.

"I am not pedantic about whether those weapons are surrendered or whether those weapons are decommissioned, destroyed with some form of verification – I don't mind," he said.

What was significant was that a political party should not be able to "go back to a nice little stockpile of weapons if something went against them and start using them again," Mr Major added.

The prime minister made the disclosure as he unveiled a £75m package of private investment in the province in the textiles, telecommunications and automotive products sectors.

The package was the highlight of a buoyant Belfast International Investment conference, overshadowing a walk-out by Sinn Féin representatives. The prime minister told the 300 delegates at Ulster's biggest business event since the troubles began 25 years ago that a "virtuous circle" was taking shape. "Peace is giving rise to prosperity; prosperity in turn will consolidate peace," he said.

Investment conference........Page 8
Editorial Comment........Page 21

IRA weapons are top of the government's agenda in its preliminary dialogue with Sinn Féin, which will resume next week when the two sides attempt to draw up a more detailed agenda for discussions.

Setting out the province's stall to potential investors, Mr Major announced a new government work programme for the long-term unemployed. He said the programme would help 1,000 long-term jobless in the province over two years and would be expanded "substantially" if successful.

The programme is understood to be the first stage of a two-pronged government initiative. The Northern Ireland Office's department of economic development is thought to be working on proposals to focus its aid effort more clearly on areas of high unemployment, including politically sensitive west Belfast.

After receiving a warm welcome from shoppers at Portadown Mr Major dismissed Sinn Féin's walkout from yesterday's conference, saying: "I think they have shot themselves in the foot rather badly."

Political reaction to his speech was mixed. Ms Marjorie Mowlam, shadow Northern Ireland secretary, welcomed the new investment but she said the government's jobs programme would "only take care of 1,000 and leave 52,000 with no hope at all".

Forces gather outside Chechen capital ■ President insists separatists must fight on

Russians poised to take Grozny

By John Lloyd and Steve LeVine in Grozny

The Russian army was poised to take the Chechen capital of Grozny last night.

Its forward tank division was drawn up on a ridge overlooking the suburbs, and the town shook to a heavy bombardment of its northern outskirts.

As the deadline given by Russian president Boris Yeltsin for the surrender of the Chechen leadership was due to expire, there were reports in the capital that the commanders of the Russian army's northern division were preparing to take the city.

Before dawn yesterday, General Dzhokar Dudayev, the Chechen president, told his beleaguered rebel nation in a television address: "This is a war for life or death. All our citizens must know that we have to defend our country and our life."

Ms Tamisha Mashidova heard the president's broadcast in the military hospital, where she works as a ward sister and as an organiser of a movement called the National Patriotic Society of Mothers and Sisters.

Later, she went up in the hospital minibus to collect other nurses from the village of Pervomaisk, in the Grozny suburbs. As she reached it, she saw lines of Russian tanks drawn up on a ridge above the town. As she stopped, two fighter aircraft circled overhead, then dived towards her, firing rockets.

Emerging from cover, she saw that a reporter from the local television station and a Chechen fighter, had been hit. She and her colleagues loaded them into the bus and bumped back to the military hospital. Behind her, a bombardment began.

The three Russian divisions which invaded Chechnya on Sunday are now to the north, east and west of the city. The western group, which came through heavy opposition in the neighbouring republic of Ingushetia, had last night halted in the town of Davydenko, 30 miles west of Grozny. The eastern group has also advanced slowly from Dagestan, and is said by the Chechen military to be near the town of Gudermes in the east.

Chechen separatists surround a Russian helicopter which was forced to land yesterday in fighting 40km west of Grozny — Picture: Reuter

Russian democrats at odds on Chechnya........Page 2

The closest division and the one which has sustained the heaviest fighting has advanced close to the suburbs of Grozny. Supported by fighter aircraft, it was last night conducting an artillery and rocket attack on the outlying areas of the city, the fire clearly audible in the centre.

Peace talks that had gone on since Monday in the city of Vladikavkaz across the Chechen border broke up yesterday with no agreement – as both sides had expected.

According to Mr Usman Imayev, the Chechen procurator, the negotiations broke down when the Chechen delegation led by Mr Taimaz Abubakarov, the finance minister, refused to recognise the sovereignty of Russia over Chechnya, which declared its independence in November 1991.

Back in the cold, badly equipped hospital, doctors picked the shrapnel out of Mr Gilani Chasigov's legs. Pulling up his jeans, making light of it, the television reporter said: "I saved my film. I'll put it on the air tonight if there is power. Watch it and you'll see they're firing at anyone, women, people in the streets, vehicles with white flags and 'first aid' written on them."

On the main road out of Grozny to the west, at one of the many points where Chechen men gather with nothing more than automatic rifles, a member of the Confederation of Caucasian Peoples had heard of Gen Dudayev's appeal as he went to his post. Withholding his name but giving his rank as lieutenant, he said he was from Dagestan, the neighbouring republic to Chechnya's east – a lone piece of evidence of a volunteer.

"I came in a week ago," he said. "Why? because I believe that the Caucasian people live in one home. I already fought in Abkhazia against the Georgians, I will fight here against the Russians. This is our common war."

Politician Tapie is declared bankrupt

By David Buchan in Paris

The political career of Mr Bernard Tapie, the populist radical, appeared to have been brought to an end last night by a decision of the Paris commercial court to put personal companies of the former tycoon into liquidation.

Under French law, people declared bankrupt are banned from holding office for five years. Mr Tapie had been mentioned as a leftwing candidate for the presidency to fill part of the void left by Mr Jacques Delors' decision not to run as the Socialist candidate. He had also shown every intention of running for mayor of Marseilles next year.

Mr Tapie, who has been fighting a series of tax, football bribery and corporate investigations by appealing against every court ruling against him, said last night that he would appeal against yesterday's decision. But it is likely to remove any presidential or mayoral hopes he may have entertained. It was unclear last night whether the ruling would allow him to continue as a French national deputy and Euro-MP.

The Paris court yesterday ruled that two of Mr Tapie's companies, personally underwritten by Mr Tapie and his wife, Dominique, should be liquidated because their "liabilities far exceeded their assets" of his Paris mansion and his Marseilles yacht.

A lawyer for Crédit Lyonnais,

Continued on Page 22

Credit Suisse top contender for stake in Budapest Bank

By Nicholas Denton in London

Credit Suisse, part of the CS Holding financial services group, has emerged as the top contender to take a controlling stake in Budapest Bank, a Hungarian state-owned bank.

If completed, the deal would be Credit Suisse's first foreign acquisition in commercial banking and involve the largest single investment by a western bank in eastern Europe. It would also encourage other western banks to follow suit.

A committee of the Hungarian finance minister, the privatisation commissioner and the managing director of Budapest Bank, Mr Lajos Bokros, will make the decision. The committee is believed to favour Credit Suisse over two other bidders, ING Bank of the Netherlands and Allied Irish of Ireland.

Credit Suisse confirmed it had put in an offer but said it was unaware it had been preferred. "We have an interest in the bank. Whether it is the bid that is going to the government we don't know," a spokesman said.

The Hungarian authorities would only confirm that there were three bidders.

Credit Suisse still has to conduct a "due diligence" evaluation of Budapest Bank and to agree terms with the Hungarians.

But government officials have, through their advisers Salomon Brothers, said they will consider the sale of the majority stake that Credit Suisse would demand.

The investor would pay about $100m for its stake, taking Budapest Bank's capital over the 8 per cent of assets target set by the Basle-based Bank for International Settlements.

Credit Suisse recently opened a branch in Moscow and the move to Hungary would allow it to pursue its strategy of seeking "home markets" outside Switzerland.

Credit Suisse's expansion into eastern Europe will allow CS Holding to offer a full range of financial services in the region. Credit Suisse would be following CS First Boston, the subsidiary of CS Holding, which has become the leading international investment bank in the region with offices in Moscow, Budapest, Prague and Warsaw.

The bid for Budapest Bank comes after the collapse of talks with Creditanstalt Bankverein of Austria, which would have brought its east European commercial banking operations to its a proposed alliance with Credit Suisse.

Budapest Bank is only the third large commercial bank in the region to be offered to western investors. ING Bank took 25.9 per cent in Bank Slaski while Bayerische Landesbank took 25 per cent in Magyar Kulkereskedelmi Bank of Hungary.

CONTENTS

NEWS: EUROPE

Nato sees big force for Bosnia pullout

General George Joulwan, Nato's senior military commander, has said he may need up to 45,000 troops backed by three aircraft carriers and as many as 70 extra aircraft to cover a possible withdrawal of United Nations troops from Bosnia, alliance officials said yesterday, Reuter reports from Brussels.

The officials, who asked not to be identified, stressed that Nato defence ministers, meeting in Brussels, had not approved any final plan to cover a withdrawal of UN peacekeepers from Bosnia if the world body ordered such a move. However, they told Reuters that Gen Joulwan, Nato's Supreme Allied Commander in Europe, had outlined "worst case" needs for a massive alliance force in a letter to members countries last Friday.

US officials have said privately that Washington could provide at least half of such a force to bring out perhaps all of the 23,000 UN forces in Bosnia.

Gen Joulwan wrote that at least seven to nine brigades of troops – representing 30,000 to 45,000 troops – could be required, including mechanised infantry, light armour, engineering battalions and at least three sophisticated communications battalions.

The officials added that Gen Joulwan's letter also called for three aircraft carriers along with up to 70 additional aircraft and both attack and reconnaissance helicopters if UN troops had to be removed in a hostile environment.

One of the officials said it was likely that only one of the three aircraft carriers would be supplied by the US, suggesting that Britain and France might supply the others if they were required.

Western diplomats, who also asked not to be identified, said the operation could cost up to $270m to begin and $100m per month once under way. They said it could require up to 6,000 trucks and Jeeps, 1,600 armoured vehicles and 180 helicopters.

While alliance defence ministers discussed the potential pull-out at the start of a two-day meeting yesterday, US officials told journalists earlier that momentum was growing rapidly among Nato countries to keep UN peacekeeping troops in Bosnia despite widespread harassment from Bosnian Serb forces.

The Nato officials said that alliance military officers stressed to defence ministers at yesterday's meeting that western political leaders had to give clear guidelines for the scope of any withdrawal if it were ordered by the UN. "For example, do we pull out of all of Bosnia or just part of Bosnia?" asked one official.

They said that Gen Joulwan suggested that the commander of such a protection force should have control over ports in Croatia in case they were needed for troop ships to carry UN forces.

UN relief workers yesterday were making a push to get aid through to Sarajevo, after Bosnian Serb leaders appeared to soften their position, writes Laura Silber in Belgrade. A spokesman said two convoys, carrying 239 tonnes of food, were heading for Sarajevo, and 13 more were planned for other parts of Bosnia.

Recent Bosnian Serb restrictions have virtually halted the delivery of humanitarian aid. But relief workers were hoping to take advantage after Serbs allowed the passage of a convoy to the Bosnian capital. Their efforts coincided with signals from Bosnian Serb leaders that they will rejoin the peace process if the international mediators negotiate directly with them rather than with President Slobodan Milosevic of Serbia.

Bossi's League backs away from Berlusconi

By Robert Graham in Rome

The populist Northern League of Mr Umberto Bossi yesterday marched one further step away from its allies in Italy's right-wing coalition government.

The League voted with the opposition in the chamber of deputies to approve the formation of a new parliamentary commission covering radio and television. This was against the express wishes of the League's government allies – the Forza Italia movement of premier Silvio Berlusconi, the neo-fascist MSI/National Alliance of Mr Gianfranco Fini and the small Christian Democratic Centre (CCD).

It was the first occasion during this parliament that the League has formally aligned with the opposition with the clear intention of politically discrediting Mr Berlusconi. Some opposition members immediately saw this as the beginnings of the formation of a new parliamentary majority.

However, Mr Walter Veltroni, a deputy for the former communist Party of the Democratic Left (PDS) and editor of the daily L'Unità, was more cautious: "This vote does not prove the existence of a new majority, rather it expresses the degree of concern in parliament over the problems of information and the media."

The vote was only a day after Mr Berlusconi had been interrogated by Milan magistrates about corruption during the time he ran his Fininvest business empire, and came when the future of the coalition was increasingly in doubt.

However, the significance of the vote lay not merely in the timing. The motion to set up the new commission was moved by Ms Irene Pivetti, the League speaker of the House. She has become a key figure in the growing political instability and has established close links with President Oscar Luigi Scalfaro. Mr Berlusconi's supporters regard her as no longer impartial and determined to undermine the credibility of the coalition to prepare the way for a new government of national unity.

Forza Italia deputies issued a note accusing Ms Pivetti: "This is a complete expropriation of parliamentary procedure by Pivetti, creating a new commission and effectively delegitimising the work of three existing commissions."

Government domination of these commissions had enabled Mr Berlusconi and his allies to take over management and editorial control of the RAI, the state broadcasting organisation. Such a situation in turn exacerbated the conflict of interest between Mr Berlusconi's role as prime minister and his ownership of three commercial television channels through Fininvest.

The problem of the control of television was further complicated by a constitutional court decision ruling last week that a 1990 law granting Mr Berlusconi three national commercial channels was unconstitutional. As a result Fininvest may well have to divest one, if not two, of its channels by the end of 1996.

Despite the background of genuine public interest behind the formation of the commission, Ms Pivetti's move was intended to embarrass the government and the League's switch of support intended as a signal of its ability to change sides. It followed the tabling of a motion by Mr Bossi in effect censoring a wide swathe of government activity, including Mr Berlusconi's handling of his dispute with the judiciary. The League cannot play this spoiling role much longer without formally changing sides.

Without the League, Mr Berlusconi would have no other ally to make up a working majority in parliament. Until now Mr Bossi has been content to conduct guerrilla warfare without bringing down the government. This is because he wants both to see the 1995 budget get through parliament and avoid early elections.

A budget, ineffectually dealing with Italy's public sector deficit, will go through parliament next week. The League's hands would then be freed to carry out Mr Bossi's long-threatened *verifica* – a parliamentary test of whether the coalition has any interest in, and chance of, survival – and to see what other coalition could form a government.

The new alliance of the type forged yesterday is the most obvious regrouping of the forces in parliament. However, the PDS is far from united on doing a deal with Mr Bossi.

For his part, the League leader is unsure all his troops would back a centre-left alliance that would inevitably leave the PDS as the dominant parliamentary player. For this reason Mr Bossi has said a coalition could be forged solely as a government of national salvation, one that excluded the neo-fascists.

Mr Berlusconi in the coming days will do his best to discredit Mr Bossi and woo away the 40-odd League deputies who are disenchanted with the League leader's behaviour. He will also resort to the populist tactic of insisting that he alone has been given a mandate to govern by the electorate in the March elections. And if the League's departure from the coalition becomes unavoidable, he will make Mr Bossi appear the person responsible for destabilising the government and the country.

Belgacom rows cloud sell-off prospect

The Belgian company runs risk of being overtaken in the race to develop global telecommunications, writes **Emma Tucker**

Decorative marble is causing trouble at Belgacom, Belgium's state telephone monopoly. The embattled company was also forced yesterday to deny local newspaper reports that its entire board was about to be replaced ahead of a planned privatisation.

The marble was hauled away from Belgacom-towers, the company's new headquarters, but officials denied that the decision was a matter of taste. "The decorations were removed for acoustic and structural reasons," a spokeswoman said yesterday, an operation which added to the BFr1.6bn (£31.6m) cost of preparing Belgacom-towers for occupation.

News of the expensive refurbishment has not gone down well with a sceptical public. Belgium's biggest state-owned enterprise is reputed to be one of Europe's least efficient public telephone monopolies. Furthermore, internal rows have frightened off potential investors, delaying a long talked of privatisation.

A sell-off is unlikely before 1996 and so far details are sketchy.

The government plans to sell only part of the operation to a private investor while retaining control of at least 50 per cent. No timetable has been set and the government has not specified which sections of the company it intends to sell.

But if it fails to act, the company risks being overtaken by the rapid development of global telecommunications. In particular 1998 sees the obligatory deregulation of Europe's telephone monopolies under EU law, a date being eagerly watched by privatised telecoms operators eager to capture new markets.

Yesterday Mr Elio di Rupo, communications minister, did not deny reports that Belgacom's board and chief executive would be dismissed soon. He merely said such reports were "premature".

Belgium's francophone Le Soir newspaper said Mr Bessel Kok, chief executive, and Mr Benoit Remiche, chairman, would be dismissed with large pay-offs. The two men have been at loggerheads over the running of the company and have fallen out publicly.

Mr Peter Drummond, a consultant working closely with Mr Kok, was forced to resign after it emerged that he was being paid by both Belgacom and PA Consulting group, advising Belgacom on setting up a mobile phone venture. The row has further delayed progress towards privatisation by creating even greater rifts within top management, already split along party lines.

Yesterday Belgacom said it had spent *BFr1.6bn on adapting its new building*, including the addition of two outside lifts, a staff canteen, conference rooms and a teleboutique.

"Belgacom has rigorously respected the budgets approved by the board for the refurbishment work which has been necessary for the instalment of about 3,000 employees who, for a long time now, have been owed a decent place to work," it said in a statement.

Belgacom's internal rows have also produced tensions at a regional level. Mr Luc van den Brande, minister president of Flanders, the Dutch-speaking semi-independent region of Belgium, has said he would like to the region to be able to establish its own telecommunications service.

Russian democrats at odds on Chechnya

By John Thornhill in Moscow

The crisis in Chechnya has sharply divided Russian society. It is also splitting the parliamentary democratic movement which appears torn between principle and political advantage.

There is little argument among politicians about whether Chechnya is anything other than an integral part of Russia which must be brought back into the fold; the differences emerge over how this can be best achieved.

In the Duma, the lower house of parliament, a curious alliance of communists and liberals has opposed armed intervention. Conversely, Mr Vladimir Zhirinovsky's ultra-nationalist Liberal Democratic party has unusually found itself sharing the same platform as the radical pro-reform December 12 Union, headed by Mr Boris Fyodorov, the former finance minister, in support of force. This may prove only a temporary re-orientation of parliamentary forces which will quickly dissolve when the Duma returns to routine politics, such as the 1995 budget.

But a more permanent change appears to be overtaking the Duma's biggest faction, Russia's Democratic Choice, led by Mr Yegor Gaidar, the former prime minister, which has broadly supported President Boris Yeltsin's policies. Mr Gaidar has been one of the most vocal advocates of a peaceful solution to the Chechen problem. But his stand has alienated Mr Yeltsin, jeopardising Russia's Choice's standing in the Duma.

"Until this crisis Gaidar still had one foot in Yeltsin's camp and one foot out. That has now changed and Russia's Choice will have radically to rethink its outlook," says one political analyst.

Mr Gaidar has come under attack within his own faction, too. Mr Andrei Kozyrev, the foreign minister, has quit the party over its stance on Chechnya. Mr Oleg Boiko, chairman of its executive committee, has also criticised the leadership.

Russia's Choice yesterday issued a statement papering over the differences, stressing the distinction between personal and party views. But few observers doubt that tensions could re-surface if unrest drags on in the Caucasus.

Strasbourg barbs make chancellor sore

By Lionel Barber in Strasbourg

Chancellor Helmut Kohl, a staunch advocate of greater powers for the European parliament, yesterday scolded the Strasbourg assembly for criticising Germany's six-month presidency of the European Union.

MEPs had no right to belittle the results of the recent European Council summit in Essen which had marked an historic step toward integrating the former communist countries of eastern Europe into the EU, he said.

He noted pointedly that barely a fifth of the 567 members were present in the chamber: "If people could see this empty room, they would be horrified."

Many MEPs appeared taken aback by Mr Kohl's touchiness. Mr Gijs de Vries, the Liberal leader, said the chancellor had obviously been too long in power.

"He's suffering from the Thatcher-Lubbers complex. It *seems to happen to everyone* who has been in power for more than 10 years."

In the debate on the Essen summit, MEPs piled up complaints about the delay in concluding a convention to govern Europol, the Hague-based pan-European police network, as well as the failure to cut high unemployment, tackle poverty, and stem the refugees from ex-Yugoslavia.

In particular, the Socialists, the single largest group, called *for an analysis of the effect on* the EU budget and common agricultural policy of enlargement to include the farm-intensive countries of eastern Europe such as Poland and Hungary.

Greek representatives spoke up, still rankled by the way Germany effectively took over the Greek presidency earlier this year by seizing control of the EU accession negotiations with Austria, Finland, Sweden and Norway.

Mr Kohl is an irrepressible optimist about Europe, but his view that Essen had achieved a broad consensus on employment, the financing of trans-European infrastructure networks, and a balanced policy toward eastern Europe and the Mediterranean was widely shared by EU governments.

Britain was especially delighted with the Ecu300m (£233m) aid programme for Northern Ireland, the strong commitment to future labour market flexibility, and the Council's decision to abandon efforts to force through an EU-wide CO_2 carbon energy tax.

The chancellor was clearly upset by criticism about the delay in setting up Europol, a project to which he attaches the utmost importance. "Why criticise me? Go back home and speak to your own representatives. They are rejecting Europol," he said.

France, which takes over the rotating EU presidency in January, has blocked a Europol agreement, though at Essen it offered a commitment to wrap up a convention before the next European summit in Cannes in June.

Germany would like the European parliament to gain greater powers of co-decision on legislation agreed at the 1996 inter-governmental conference to review Maastricht. The Gaullist government in France is likely to be far less co-operative during its presidency.

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COMPANY NOTICES

EUROPEAN NEWS DIGEST

E German rail sale in sight

Advent International, the Boston-based venture capital company, is expected to confirm today that it has bought Deutsche Waggonbau, east Germany's giant railway manufacturer and one of the last remaining industrial complexes under the Treuhand privatisation agency. The sale will be announced during a special meeting of DWA's board, according to Treuhand officials and the IG Metall steel and engineering union.

The DWA acquisition will pose a considerable challenge for Advent and its technological partners, who have yet to be named. DWA – which once employed over 24,000 workers before German unification but now employs 6,600 – was regarded as one of the most difficult cases for the Treuhand, which winds up operations on December 31. To make the enterprises's five subsidiaries more attractive to investors, the management will have to cut 1,835 more jobs after next July. The Treuhand recently agreed to extend a further DM400m ($254m) as part of DWA's restructuring programme and to find new markets. DWA last year had a turnover of DM1.2bn, but this is expected to fall to DM1bn on losses and debts of DM390m for 1994. *Judy Dempsey, Berlin*

New government for Ireland

Ireland is expected to have a new government today, with Fine Gael set to agree a coalition with Labour and the small Democratic Left party. Mr John Bruton, leader of the conservative Fine Gael party, would become prime minister with Labour leader Mr Dick Spring foreign minister and deputy premier. The three parties have been in negotiations since talks broke down last week between Fianna Fail and Labour, the coalition partners in the outgoing administration, over a judicial appointments row. A joint programme for government was due to be published by the parties last night and will be put to the respective parliamentary parties for approval. Mr Proinsias de Rossa, leader of the Democratic Left, said the coalition negotiations were "making steady progress". The three party leaders were due to resume talks on a share-out of the 15 cabinet seats last night. Observers expect a deal could be ready to be voted on in parliament today. Outgoing finance minister Mr Bertie Ahern told reporters on Tuesday night that the new government would inherit the best set of accounts any government had enjoyed for more than 25 years. *John Murray Brown, Belfast*

Mercedes seeks Greek damages

German carmaker Mercedes-Benz threatened to sue Greece's government yesterday for shutting its main Athens office for eight days and posting a sign outside branding the company a tax dodger. "If the case is as we see, it is most likely we will sue for damages," Mr Hans Dieter Struck, the company's managing director in Greece, said. Finance ministry officials chained and padlocked the main entrance to Mercedes-Benz on Tuesday and put up a sign next to the door announcing "locked until 20/12/94 for tax evasion". Mr Struck said it was absurd to shut the company's headquarters in Greece because of a disputed 300,000-drachma ($1,250) fine. Mr Struck said Mercedes felt its row with the finance ministry had nothing to do with tax evasion but with a dispute, which is still under review at the ministry, over a missing 1993 receipt for spare parts worth 150,000 drachmas. Mercedes has appealed to the highest administrative court in Greece and, if necessary, will go to the European Court, Mr Struck said. *Reuter, Athens*

EU packaging directive passed

The European parliament yesterday passed the long-delayed directive on packaging and packaging waste, setting targets for the recovery and recycling of packaging waste. It will take effect in the new year. The directive gives member countries 18 months to draw up legislation aimed at recovering between 50 per cent and 65 per cent by weight of packaging waste each year. Between 25 per cent and 45 per cent of packaging waste must be recycled, with a minimum of 15 per cent for each packaging material. Members then have five years to achieve the targets. The targets, lower than originally proposed two years ago, were agreed by European environment ministers last year but the directive was delayed by opposition from Belgium to an amendment which it feared would limit its ability to levy eco-taxes. Following redrafting, the directive was passed by European agriculture ministers on Tuesday. "This is very good news for the industry," said the UK's Industry Council on Packaging and the Environment. "Everyone can plan for the future knowing what the requirements are." The council called the targets "realistic and achievable", adding that the directive would prevent members from introducing national packaging legislation. *Neil Buckley, London*

European energy law accord

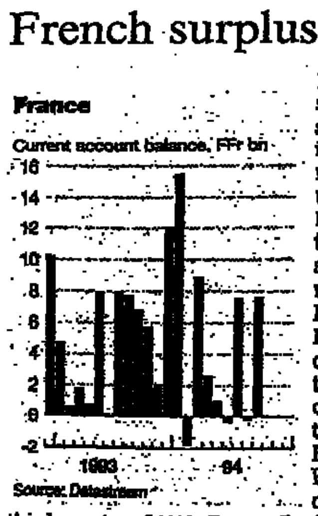
Ministers from at least 45 countries plus a European Union representative will meet in Lisbon over the weekend to sign the European Energy Charter, which aims to establish a legal agreement for investment and trade in energy between western organisations and those in central and eastern Europe. The charter was originally proposed after the fall of communism to provide the west with a vehicle for supporting Russian and east European industry. However, its completion has been delayed because of disputes over the exact legal requirements that should be set, as well as the slow pace of internal reform in Russia. The US will delay signature of the charter until next year, while Norway's vote to stay out of the EU casts doubt on its signature. Russia has said it will sign in principle, but it is unclear whether they will do so as early as this weekend. *Emma Tucker, Brussels*

Waigel lowers borrowing plans

Mr Theo Waigel, the German finance minister, expects to borrow DM55bn ($35bn) – DM13bn less than he had earlier indicated to finance this year's budget following higher tax receipts and further savings. Mr Waigel recently said net borrowing requirement had fallen by DM10bn, but yesterday he revised this to DM13bn as he presented his 1995 budget to parliament for the first time since it was re-elected in October. The net new borrowing requirement for the 1995 budget will also be DM10.2bn lower than expected, totalling DM58.6bn, Mr Waigel said. Expenditure in 1995 is expected to be about 1 per cent higher than this year, totalling DM484.1bn. The biggest item is the social security budget which is expected to rise by 1.9 per cent to DM132.3bn. *Michael Lindemann, Bonn*

ECONOMIC WATCH

French surplus at FFr7.7bn



France's current account showed a seasonally adjusted surplus of FFr7.72bn ($1.5bn) in September, the economy ministry said, against an unrevised deficit in August of FFr291m. The ministry said that the seasonally adjusted surplus in the first nine months of 1994 was FFr43.6bn, compared with a FFr39.1bn in the same period of 1993. The ministry said the seasonally adjusted current account surplus in the third quarter was FFr15.07bn compared to FFr5.91bn in the second quarter and FFr22.89bn in the third quarter of 1993. *Reuter, Paris*

■ The Finnish unemployment rate was 19.2 per cent in November compared with 19.1 per cent in October and 20.3 per cent in November 1993.

Economic upturn has revived Alphandéry

A confident finance minister discusses France's lead in Europe's growth league with **David Buchan**

EUROPEAN INTERVIEW

France is set to record the highest growth of any large European country next year, said Mr Edmond Alphandéry, economy minister, dismissing the autumn's sluggishness in consumer demand as a natural pause after rapid recovery.

"Don't confuse deceleration of the rhythm of recovery with a halt to the recovery," he said in an interview. "After exceptionally fast growth, especially in the second quarter of this year, we knew we couldn't continue at that pace. But we have already registered growth of 2.3 per cent for the first nine months of this year."

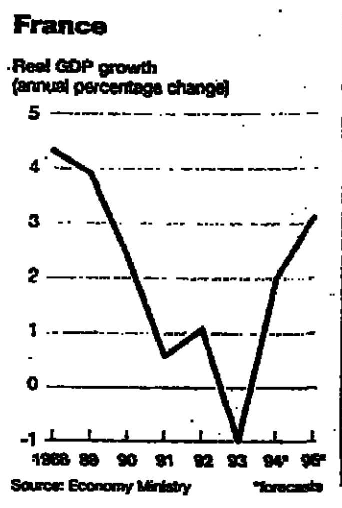
He stuck to his official forecast of 3.1 per cent growth in 1995, but noted that the European Commission predicted France would top the European Union league, with 3.2 per cent growth next year.

Mr Alphandéry flatly ruled out the return of the recession that saw French gross domestic product contract by 1 per cent in 1993. "No economist or forecaster envisages the scenario of a double dip in the French economy," he said.

The economic upturn has clearly restored Mr Alphandéry's confidence, shaken in 1993 by the monetary crisis and by criticism that his supply-side focus on improving companies' cash flow and promoting long-term savings and investment, rather than pumping up consumer demand, risked prolonging recession.

"The choices we made are now bearing fruit," he said. Growth has returned to the French economy without increasing inflation (running at an annual rate of 1.6 per cent) and without diminishing the trade surplus (likely to be FFr80bn [£9.5bn] for the second successive year). The synchronisation of policy with Germany, enshrined in a joint convergence plan that Mr Alphandéry presented a year ago with Mr Theo Waigel, his German counterpart, has created "a formidable factor of stability" within the European monetary system.

Mr Alphandéry recognises that one consequence of French policy convergence with Germany, and of "the openness of our economy which is much more linked than in the past to our neighbours", is to make "the French economy more cyclical". But at the present, the cycle is moving in the right way. "What makes me optimistic that the recovery is definitely here for 1995-96 is that the whole environment surrounding France is improving, with strong German, Italian, Spanish demand for French goods."



Economy minister Edmond Alphandéry: "No economist or forecaster envisages the scenario of a double dip in the French economy"

The other factor in Mr Alphandéry's optimism is his pride in "getting ourselves out of recession with pretty sparing use of [public] resources" and in inducing savers to switch "the money they were hoarding in short-term money market funds into long-term savings, helping private and public investment.

"We have also systematically assisted the competitiveness of French companies. For instance, we gave companies a FFr50bn cash reimbursement on value added tax. President [François] Mitterrand criticised this, saying it was economically inefficient not to give the equivalent of money to households to support general consumer demand. We didn't do that. And it has paid off. Look at the balance of payments surplus, which, even with recovery, has not shrunk. Exports have increased in line with imports."

The "sparing use" made of public resources took the form of "targeted incentives in favour of car purchases and housing investment". Mr Alphandéry said. "We thus put 'super' into the two motors of the French economy."

But it is on his restructuring of savings that he waxes most enthusiastically. To a large extent what he has done is simply correct the over-generous tax treatment given to French money market funds when, with the lifting of all exchange controls in the early 1990s, it was feared these funds would depart for Luxembourg and other tax havens.

Nonetheless, Mr Alphandéry has wrought a significant change. When he took office individuals had FFr300bn, and companies another FFr400bn, piled up in short-term money market funds known as Sicavs. "These were really false savings, and counted as part of M3 money supply. Some FFr250bn of these funds have now been consolidated into long-term savings.

"I was of course helped by the fall in short-term rates relative to long-term rates." But the minister also vaunts his reforms allowing money from Sicavs to be switched, tax-free, into equity investment schemes, into lending to the government in the form of the four-year "Balladur bonds" issued in 1993 and into housing, as well as lowering tax exemptions on withdrawals from Sicavs for any other purpose.

Mr Alphandéry has one more big investment vehicle on his drawing board: capitalised private pension funds. Far from being a threat to the shaky state scheme, he argues that private pension funds could help buoy it, by boosting investment and growth and thereby creating higher salaries and pension contributions paid into the state scheme.

It is thus a much more confident Mr Alphandéry who on January 1 takes over chairmanship of the council of European Union economic and finance ministers for the six months of the French presidency of the EU. Among his priorities will be to put into effect the Commission white paper's recommendations on general competitiveness and labour market flexibility, and to scrutinise more closely international aid programmes.

On such issues, he said he found himself "much in intellectual harmony" with Mr Kenneth Clarke, the UK chancellor of the exchequer. It is surprising to hear a French centrist express such affinity with a British Tory. But it is clear that 20 months of holding office have confirmed Mr Alphandéry's fiscal conservatism and supply-side instincts.

Australia aims to check surging growth

By Nikki Tait in Sydney

The Australian government was aiming for "more acceptable" annual growth levels of between 4 per cent and 4.5 per cent and would review fiscal policy when it conducted its mid-year budgetary review in January, Mr Ralph Willis, treasurer, said yesterday.

His comments came within hours of the decision by the Reserve Bank of Australia to raise the country's official cash rate by a further one percentage point to 7.5 per cent when markets opened yesterday, in an effort to check the nation's surging economy.

This is the third rise in four months – the previous increases of 75 and 100 basis points were in August and October respectively.

Recent figures have shown that Australia's non-farm sector grew by 7.3 per cent in the year to the September quarter, and Mr Willis said this momentum had continued. "It's clear the economy is growing very strongly in the December quarter."

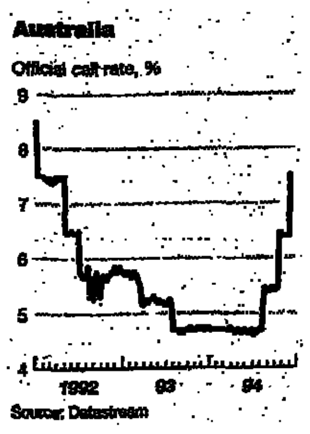
"Clearly, in these circumstances we need to give further consideration to fiscal policy. . . we will do that in the context of the mid-year review," he said.

Although Mr Willis stressed that no decisions have been taken, many observers believe the government is preparing the ground for tax increases in the new year. These could mean a fight in the Senate, parliament's upper house, where the government lacks a majority, and will be hard to sell to the electorate.

In the meantime, many private sector economists suggested that yesterday's rate rise would not be the last move on the monetary front for a while. "The overwhelming strength of the economy suggests to us that there is another 100 basis rate rise to occur in the next few months," Bankers Trust said. The Australian dollar seemed to reflect this view, finishing in local markets at US$0.7774, its highest closing level for three years.

The powerful Australian Council of Trade Unions sent a shot across the government's bows when Mr Martin Ferguson, Actu president, called for less reliance on interest rate rises to slow the economy and more emphasis on taxing the "top end of town".

He added that any additional tax burden on the lowest paid could "seriously put at risk" the accord between the union movement and the government. Under this, the unions pledge to seek wage deals which keep Australia's inflation rate in line with that of its trading partners.



Taiwan shifts China focus

By Laura Tyson in Taipei

Taiwan yesterday announced a cabinet reshuffle in which the most significant move was seen as shifting emphasis from politics to economics in delicate relations with China.

The moves were also seen as an effort by President Lee Teng-hui to strengthen his position in advance of presidential elections slated for early 1996 and subtly to raise Taiwan's level of representation at international economic meetings. The last big cabinet reshuffle took place in early 1993.

Mr Vincent Siew, economic planning minister, will head the Mainland Affairs Council, the agency which shapes China policy. Mr Siew has advocated opening direct shipping and air links with China, long banned by the ruling Nationalist party but supported by Taiwanese business interests.

His successor as chairman of the Council for Economic Planning and Development will be Mr Hsu Li-teh, who will remain deputy premier.

Mr Hsu will represent Taiwan at next year's Asia Pacific Economic Co-operation forum. President Lee is barred by China's objections from attending the annual trade summit of the region's leaders. China views Taiwan as a rebel-held province and thwarts its attempts to join international organisations.

On Tuesday, Mr Siew said Taiwan should consider setting up "offshore" shipping centres through which direct sea trade with China could be conducted. "We should actively review the current indirect trade and investment policy and make some appropriate relaxations. . . under conditions of national security, we should consider setting up a shipping centre outside national boundaries," he said.

All cross-strait trade must now by law be routed through a third location such as Hong Kong. Earlier, similar proposals have suggested that one of Taiwan's harbours be designated as the centre for direct shipping with China.

However, Mr Siew cautioned yesterday against reading too much into his appointment. "I will not only focus on economic issues and there will be no major policy change. . . don't expect too much from me," he was quoted as saying.

Japan plans to ease rules on funds

By Gerard Baker in Tokyo

In a belated attempt to revive flagging interest in the nation's investment trust business, Japan's ministry of finance has announced it plans to sweep away most of the tight restrictions that are currently stifling demand for such funds.

Many of the rules governing fund management and distribution of profits will go in the widest ranging shake-up of the investment trust sector for decades. The changes are likely to take effect before the end of the year.

The most significant of the changes will be the lifting of a ban on investing in derivatives. At present, trusts are permitted to invest in derivative instruments, such as futures and options, only for the limited purpose of risk-hedging.

In a further effort to create a more investor-friendly environment, the trusts will have to disclose their funds' performance in greater detail, including publication of monthly performance data. More transparent reporting will also be required to enable better comparison between trusts.

The Japanese equity market has fallen from its highs of the late 1980s and savers have shied away from investment trusts. The ministry of finance estimates that net assets of equity-based investment trusts have fallen from more than Y45,000bn (£287bn) in 1989 to less than Y19,000bn at the end of October this year.

Other principal reforms are:

- Investment trusts will be allowed to invest in any foreign market.
- Restrictions on the sale of foreign investment trusts in Japan will be eased.
- The ban on mergers between investment trust companies and investment advisory companies will be lifted.
- "Churning", excessive buying and selling of equities to increase brokers' commission income, will be banned.

See Capital Markets

School bullying haunts celebrations

Michiyo Nakamoto on questions raised about the educational system

Aiming high: but 12 per cent of Japan's elementary schools and 33 per cent of junior high schools reported bullying in 1992 *Ashley Ashwood*

The Christmas lights have gone up to add cheer to the Japanese year-end but, far from being in celebratory mood, the country is gripped by concerns about bullying in its state schools.

On Tuesday the nation, already deeply disturbed by the suicide last month of a 13-year-old schoolboy who was the victim of bullying by classmates, was shocked by a second young suicide of the same age, who had also been tormented by his peers.

The public outcry over the increasingly cold-blooded bullying that is taking place in Japanese schools has led the government to set up a special cabinet council to look into the causes of and possible solutions to school bullying.

Mr Tomiichi Murayama, prime minister, has called on his ministers to review the educational counselling system to determine whether it was functioning properly.

Bullying is by no means a new feature of life at Japanese schools nor a phenomenon peculiar to Japan. But the number of incidents which are thought to have been responsible for the deaths of teenagers and the apparently more vicious nature of the bullying has alarmed the public and raised questions about the country's educational system.

In its annual white paper on education released on Tuesday, the ministry of education cites that 12 per cent of elementary schools, 33 per cent of junior high schools and 24 per cent of senior high schools reported bullying in fiscal 1992.

While the figures show that incidents have been on the decline at elementary and senior high schools, the ministry notes that there has been a rise in incidents of bullying at junior high schools.

Mr Kazuhiro Mochizuki, a former headmaster of a junior high school who is now an educational consultant, believes that the strong tendency in junior high schools to judge students according to their academic achievements is largely to blame for the bullying groups which have sprouted throughout Japanese state schools.

"There is a lot of confusion in junior high schools over how best to get students into high schools. In the shadow of all the confusion over academic counselling, I believe 70 to 80 per cent of the children have an inferiority complex and these are the ones who form groups and try to vent their frustration by bullying others," he says. In most cases victims are gentle children who have an average or above average academic record.

At the same time, the emphasis at schools has shifted so much towards academic work that moral instruction and non-academic activities have been neglected.

Many critics of Japan's educational system who share Mr Mochizuki's concerns about the weight given to academic achievement blame the system for creating an environment in which children feel they cannot rely on their teachers.

"Teachers are preoccupied with conferences and other matters and have less and less time to spend with the children. That is why the children do not trust their teachers and do not tell them that they are being bullied," notes Mr Inada Nada, a psychologist and writer. "If personal relationships are weak, there will be bullying not only at schools but at the workplace as well," he adds.

In many cases where bullying has led to the suicide of young students, the school authorities, including the victims' teachers, claim not to have noticed the bullying.

Although some schools have set up special counselling facilities, children who are bullied by their peers tend to keep the reality hidden from grown-ups.

This is in part out of fear of retaliation from offenders but also because they are not always taken seriously by adults. In both of the latest suicide cases, the parents of the victims had suspected bullying for some time, but the school authorities did not take any significant steps to try to stop the aggression.

In a society where group harmony and conformity are valued over individuality and self-assertiveness, it is often not only difficult for the victim of group aggression to seek help but humiliating as well.

Another aspect that has raised concerns in Japan is the growing tendency for bullies to extort huge sums of money from their victims. In the case of Kiyoteru Okochi, who committed suicide last month, one of the most shocking revelations was that his tormentors had forced him to give them a total of more than Y1m (£6,380) over a period of about two years, according to a letter he left.

The money, which Kiyoteru stole from his parents and borrowed from relatives, was spent by the bullies at game arcades and on everything from clothes to food and alcohol.

"Many children today cannot play without money," laments Mr Mochizuki. The problem reflects a deeper social disorder, he believes.

"Bullying is occurring in public schools which cannot reject any of the children who live in the local communities. In many of these communities, people who have lived side by side for more than ten years do not even talk to each other and it's everyone for himself. In such an environment, how can you expect children to develop a sense of concern for others?" Mr Mochizuki asks.

"The government cannot hope to solve this problem with peremptory measures like setting up councils but will have to look at it from the perspective of local communities and of the educational system as a whole," he points out.

Japan has always prided itself on its social harmony. But ironically, as the country tries to define a new relationship for itself with the rest of the world, it is having to reflect on the effects of deteriorating relationships among its own people at home.

INTERNATIONAL NEWS DIGEST

Japan company failures decline

Japanese corporate collapses may be diminishing, according to the latest bankruptcy figures. Defunct companies left Y398.8bn (£2.54bn) worth of debts last month, down 61 per cent from November 1993, Teikoku Databank, a credit research agency, said yesterday. Much of that big year-on-year drop is artificial, due to the fact that November last year saw Japan's biggest recorded corporate collapse, that of Osaka-based Muramoto Construction, with debts of Y590bn. Bankruptcy debt also declined in the month from October to November this year, by 52.3 per cent, though the October figure was also unusually high, due to the Y518.5bn collapse of Nippon Mortgage, a medium-sized non-bank financial institution. The number of companies to collapse rose by 1.6 per cent to 1,195 in the year to last month, but fell by 2.5 per cent from October to November. Construction continues to be hard hit, with a 15.7 per cent year on year rise in bankruptcies, while collapses in manufacturing industry were almost stable - a 0.8 per cent rise.

In another piece of moderately good news for the economy, department store sales fell by 0.6 per cent in November, the smallest decline in the 33 consecutive months during which sales have fallen. *William Dawkins, Tokyo*

Pakistan move on violence

Pakistan's ruling and opposition parties temporarily put aside their squabbling yesterday to agree on a concerted effort to try to end violence in Karachi which has killed at least 93 people in two weeks. The National Assembly unanimously decided to set up a committee to investigate the causes and propose remedies to solve the ethnic, sectarian and political violence in Pakistan's commercial capital.

The rare bipartisan accord came as a Moslem Shia leader warned of a bloodbath in Karachi unless the government acted in the wake of Tuesday's killing of three Shias in separate shootings. The violence has gained in intensity since army troops ended two-and-a-half years of law enforcement duties in the port city recently. *Reuter, Islamabad*

China group in HK wound up

A British businessman yesterday won the right in Hong Kong to have a Chinese state company wound up for failure to pay its debts of £1.86m. In what is believed to be the first such case of its kind in Hong Kong involving a mainland company, Mr Richard Gosling's Zone Heath Associates successfully applied to the Hong Kong High Court to have it recognise a London High Court judgment against China Tianjin International Economic and Technical Co-operation Corporation (CTIETCO), one of the Tianjin municipal government's leading enterprises. Wilde Sapte, Mr Gosling's solicitors, said an official receiver would be appointed to investigate the affairs of CTIETCO in Hong Kong. *Simon Holberton, Hong Kong*

HK$4.5bn rail projects planned

The Hong Kong government is planning three railway projects costing a total HK$4.5bn (£372m) and to be completed by 2001, according to Mr Haider Barma, transport secretary. He added that China has been informed of the plans and has yet to approve them. The projects include a rail link between Western Kowloon reclamation, the north-western New Territories and the border with China at Lowu; a subway extension line to Junk Bay in eastern Kowloon peninsula and a line between the new housing estates in Maanshan to Tai Wai in the New Territories. *no AFX and Reuter, Hong Kong*

Bahrain police arrest protesters

Bahrain police used teargas to disperse small groups of demonstrators two nights running this week and arrested some of them. Witnesses said yesterday that tear gas was used on Monday and Tuesday nights against demonstrators in central Manama and at Qadim, a village about 5km to the west of the capital. The cause of the demonstrations was not known. Residents said judging by the authorities' actions at previous such incidents in the small Gulf island state, most of those arrested would be released soon after questioning. The residents variously estimated the numbers involved at between 50 and 100 in each location. *Reuter, Dubai*

S Korea to reform oil sector

South Korea's trade, industry and energy ministry unveiled a draft plan to reform its heavily controlled oil industry by liberalising prices, distribution and both export and imports of oil products. Under the plan, oil refiners, distributors and petrol stations would be allowed to set their own prices for oil products including petrol, paraffin, gas oil and diesel oil. "The timing has not yet been decided. Talks are still under way with related government offices," a ministry official said. But Seoul media predicted prices of oil products would be deregulated from the second half of next year. *Reuter, Seoul*

Soros pledges R20m to SA

Mr George Soros, the financier, yesterday pledged R20m (£3.6m) start-up capital and a guarantee facility for a further R200m to provide housing for the poor in South Africa. With matching funds from the government, his Soros Foundations are to establish a National Urban Reconstruction and Housing Agency (Nurcha) which would "will promote delivery in the short term and will take financial risks which can unlock private capital." *Our Foreign Staff*

Rabin presses Tokyo on funds for new bank

By William Dawkins in Tokyo

Mr Yitzhak Rabin, the Israeli prime minister, yesterday asked Japan to contribute $300m-$400m (£192m-£256m) of capital for the planned Middle East development bank.

Mr Rabin, who is at the end of a three-day tour, the first official visit to Japan by an Israeli leader, requested the contribution in talks with Mr Masayoshi Takemura, finance minister. Mr Takemura was unable to give any indication of further assistance from Japan, which has already pledged $200m over the next two years for the improvement of Palestinian self-rule areas.

Mr Rabin is keen to see wide backing for the bank, which is to fund regional infrastructure projects along the lines of the European Bank for Reconstruction and Development.

Last month's Middle East and North Africa economic summit in Casablanca agreed to study the establishment of such a bank, probably with capital of $10bn, of which Israel has indicated it might provide $500m.

Israel wants the US – a supporter of the scheme – to provide 60 per cent of the capital along with Europe and Japan, with the remainder coming from Middle East countries.

In a separate meeting with Mr Yohei Kono, the Japanese foreign minister, Mr Rabin voiced concern over the growing strength of Islamic fundamentalism and alleged official Iranian support for terrorist organisations.

His comments come at a sensitive time, as the Japanese government is considering whether to disburse an overdue second tranche of an official soft loan for a dam in Iran. Mr Kono was reported to have made no reply.

Reuter adds from Jerusalem: Mr Hikmat al-Masri, a leading organiser against British mandatory rule of Palestine before 1948 and against Israeli occupation later, has died, aged 88, his family said yesterday. Mr Masri, a member of one of the most prominent West Bank families and a co-founder in 1964 of the Palestine Liberation Organisation, died on Tuesday in his native city of Nablus.

Elections catch up with India's slow reforms

Liberalisation moves are seen as an irrelevance by most disaffected rural voters, writes **Stefan Wagstyl**

Three days after his party suffered a serious defeat in state elections, Mr P V Narasimha Rao, the Indian prime minister, has yet to utter a word in public. In his usual quiet way, the 73-year-old veteran is taking stock of the mood of the party and the country before making a move.

Mr Rao has at least one crumb of comfort: bad as the results were for the ruling Congress (I) party, the prime minister's own job does not seem at risk. Even though the party's worst performance was in Mr Rao's home state Andhra Pradesh, a brief flurry of suggestions that he should quit has blown away.

But Mr Rao's critics in the party want changes – and want them soon, in time to influence another round of elections in five more states in February, as well as the next general election which is due by mid-1996. As Mr Narain Dutt Tiwari, Congress party chief in the northern state of Uttar Pradesh, says: "We simply cannot win any elections with our present image." While Mr Tiwari is a known opponent of Mr Rao, many Congress members echo privately what Mr Tiwari has said in public.

Mr Rao's supporters counter that the state elections were fought mainly over local issues and warn against over-reacting in Delhi. But even they concede that adjustments may be necessary, particularly in the presentation of the government's economic programme.

The prime minister's opponents believe that the pro-market reforms Mr Rao has pursued for the past three years have insufficient appeal to the great mass of rural Indians, who constitute 75 per cent of the total electorate. As far as these farmers and labourers are concerned, liberalisation of foreign trade and investment is an irrelevance. The biggest economic change they have witnessed since reform started in 1991 has been a 90 per cent increase in the prices of food and fuel, which have been pushed up by government subsidy cuts.

Mr Rao's critics say the reforms are therefore seen as "anti-poor" and must be given "a human face". A few are even demanding the resignation of Mr Manmohan Singh, the finance minister.

The mere suggestion that Mr Singh might be forced to resign or to launch a drastic overhaul of economic policy has sent the stock market tumbling. The Bombay Stock Exchange's index of leading shares closed up 31.42 points yesterday at 3,861.47 after five consecutive falls. It is still down 5.5 per cent on a week ago.

This may be an over-reaction. A few grumbles about Mr Singh do not constitute an attempt to dislodge him. Mr Rao has stood by him in difficult times – notably last December when he declined Mr Singh's resignation after parliamentary criticism of the way the finance minister handled the 1992 Bombay securities market scandal.

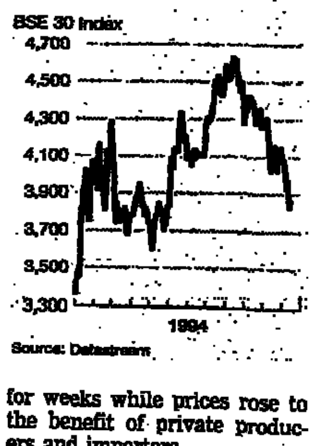
Moreover, even if Mr Singh were to go, there is broad cross-party consensus about the need for economic liberalisation. So although there may be arguments over presentation, the direction of pro-market reforms is not at risk.

But what could be threatened is the fiscal discipline which has underpinned liberalisation. In his first two years, Mr Singh squeezed public spending, cutting the fiscal deficit from 8.4 per cent of gross domestic product to 5.7 per cent in 1992-93. But in the year to March 1994 it returned to 7.3 per cent as spending cuts slowed. This year's generous target of 6 per cent seems attainable because of a recovery in tax payments. The danger is next year when the political pressures to spend in advance of the general election may be irresistible. The 1995-96 budget, due in February at the time of the next round of state elections, will be crucial.

Apart from the economy, the Congress party is considering three issues which may have lost votes this week – corruption, caste and the handling of the 1992 destruction of the Ayodhya mosque.

Opinion polls showed that many voters were angry at corruption in government. Mostly they were concerned about corruption at the local level, such as bribes paid to petty officials and commissions collected by district politicians. But Mr Rao is under attack in Delhi over corruption in the central government. Opposition parties have repeatedly urged him to dismiss two ministers who were named in the parliamentary report into the Bombay securities scandal – Mr B. Shankaranand, the health minister, and Mr Rameshwar Thakur, the junior finance minister.

Also, the prime minister is under pressure in parliament to explain how the government mishandled a sugar shortage earlier this year. Government imports of sugar were delayed for weeks while prices rose to the benefit of private producers and importers.



Mr A K Antony, minister for civil supplies, resigned yesterday, saying he bore moral responsibility for the sugar scandal. An official report named him and other senior officials in imports deals.

However, there are fears within Congress that even if the party acts on its economic record and corruption, it will still fail to rebuild support it has lost among India's lower castes and Moslems. Once the bedrock of Congress party support, these communities have been fickle in recent years and deserted Congress in droves in the two biggest of the four states in which elections have just been held – Andhra Pradesh and Karnataka. Moslems have been alienated by Mr Rao's failure to rebuild the Ayodhya mosque after it was pulled down by militant Hindus. It is hard to see how Mr Rao can win back their support without angering the much larger Hindu community.

With caste-based communities he faces a similar problem of matching competing demands. Once Congress won favour with the poor with modest hand-outs of subsidies and public works projects. But as the lower castes have become more politically active so their demands have grown. The result is that politicians become embroiled in increasingly bitter arguments about sharing out the pie of patronage.

As Mr Singh has said, only increased economic growth can provide the means to satisfy these competing demands. Until now he has persuaded the Congress party to wait patiently for his policies to deliver growth. He says India will see the benefits in the late 1990s. After these elections it is not clear that his party colleagues are prepared to wait that long.

ITALIAN PACKAGING MACHINERY INDUSTRY

The Italian packaging machinery industry: a world leader with growing shares in the market, thanks to its traditional success in satisfying market demands, while providing personalised solutions

THE REASONS OF A LEADERSHIP

Italian packaging machines are in use in over 150 countries, mostly in European markets, the U.S. and Japan, as well as in the newly industrialised countries of Asia.
Also of special importance is the use of Italian machines in countries striving to improve their living standards, from the CIS to the other nations of East and Central Europe, as well as China, Latin America and the more developed industrial regions of Africa.
Today one out of four packaging machines on the international market is made in Italy.

A successful tradition. The reasons for this success can be traced within its historical and geographical roots.
The first businesses were formed in Bologna at the beginning of the 19th century.
As true pioneers, the first industries were well ahead of their time in identifying two fundamental demands of the market: the strategic importance of packaging in the market of products of large consumption; and the need to adapt packaging machines to fit the particular requirements of each customer.

Customisation. On the basis of this tradition, the Italian-packaging machinery firms offer a complete range of products on the world market. The systems and the machines they plan are tailor-made to fit specific customer needs, using innovative technology and new materials at every level of the production process. Furthermore, the highest levels of service are guaranteed by a continuous and stable contact between producers and customers.

Non-stop research. The major part of the people working in the Italian packaging machinery sector is employed in research, development and maintenance.
They work on two fronts. On one side they develop an increasing number of complete and automatised lines. On the other side they create user-friendly machinery which requires less maintenance and can be integrated into the users already-existing production and inspection systems.
According to a survey carried out by the Harvard Business School, Italian packaging machinery is an "happy combination of artistry and technology".

Competition and competitiveness. The Italian packaging machinery sector is mainly composed of small and medium sized companies. So competition is very strong and represents a continuous stimulation for the improvement and innovation in products and services, customer orientation, flexibility and good quality-price ratio.
This is the basis for the competitiveness of the sector on the worldwide market.
Such a simple and, at the same time, sophisticated structure quickly became a strong success factor when Italian entrepreneurs begun to cross over the frontiers.
Export has become so important that Italian packaging machinery industry is going to achieve a position of leadership on worldwide market.

The trend of the Italian industry of packaging machinery (value in million U.S. dollars)

	1992	1993	△ % 93/92
Turnover	1,621	1,824	+ 12.5
Export	1,123	1,494	+ 33.0
Deliveries on the Internal market	498	330	- 33.6
Import	178	203	+ 14.3
Domestic consumption	676	534	- 21.0
Trade balance	945	1,290	+ 36.5
Import / Domestic consumption	26.3	38.1	
Export / Turnover	69.3	81.9	

Source: UCIMA-The Italian Packaging Machinery Manufacturers' Association - Economic Studies Bureau

ITALIAN PACKAGING MACHINERY: NON STOP GROWTH.

"We can look at the future very optimistically", said Mr. Giancarlo De Martis, president of UCIMA (the association representing Italian packaging machinery manufacturers).
In 1993 over 300 companies producing packaging machinery in Italy registered a growth in export of 33% compared to the previous year, and the impact of sales on turnover increased from 69.3% to 81%.
"While other countries such as Germany, France and Switzerland reported a decrease in terms of turnover - said Mr. De Martis - the Italian packaging machinery industry seems to be launched towards a continuous growth. With no doubt the readjustment of Lira has been helpful, but the most important role in such a success has certainly been played by the pursuit of a policy of high technology and customer satisfaction".

An in-depth look. Export in 1993 represented 81.9% of the total production of Italian packaging machinery and in the same year balance of trade registered over 1.3 billion dollars (about 70.7% of the total turnover).
Obviously the EC is the primary market for Italian packaging machinery export with a share of 39.2% and with a growth rate in 1993 of 20.4% compared to 1992.
The German market remains the most important (+13.1%), followed by the U.S., France, UK, and Spain.
Export also increased in the Eastern European market (particularly in Poland and CIS) in Latin America (particularly Mexico, Argentina, Chile and Brazil), China and South East Asia.

A "memorable overtaking" of the competitors was then achieved in Japan where Italian machineries represent 35% of the total of foreign machineries sold there.

A strategic development. The strong position of the Italian packaging machinery industry is now going to be consolidated with an outreach visibility plan that UCIMA (the association representing Italian packaging machinery manufacturers) is implementing.
The core of this plan is the creation of the Italian Packaging Points in Hong Kong and Mexico City (and so, at the gateways to the most strategic markets: the Far East and Latin America).
These "IPPs" will support all the initiatives of Italian packaging industry (i.e. the "Italian Packaging and Process Machinery Exhibition" that will be held in Beijing in March 1995), and, most of all, will manage all the communication to the Far East and Central-Southern America.
"The Far East and Latin America, - declared Mr. De Martis - thanks to the development they achieved in the last years will be the big "chances" for Italian packaging machinery industry".
The Italian manufacturers of packaging machinery have already achieved good results, much more valuable considering the fact that, in many cases, there was no advantage coming from the devaluation of the Lira.
"So, - declared Mr. De Martis, the consolidation of the Italian packaging machinery industry in these "relatively" emerging markets, represents the last frontier to worldwide leadership".

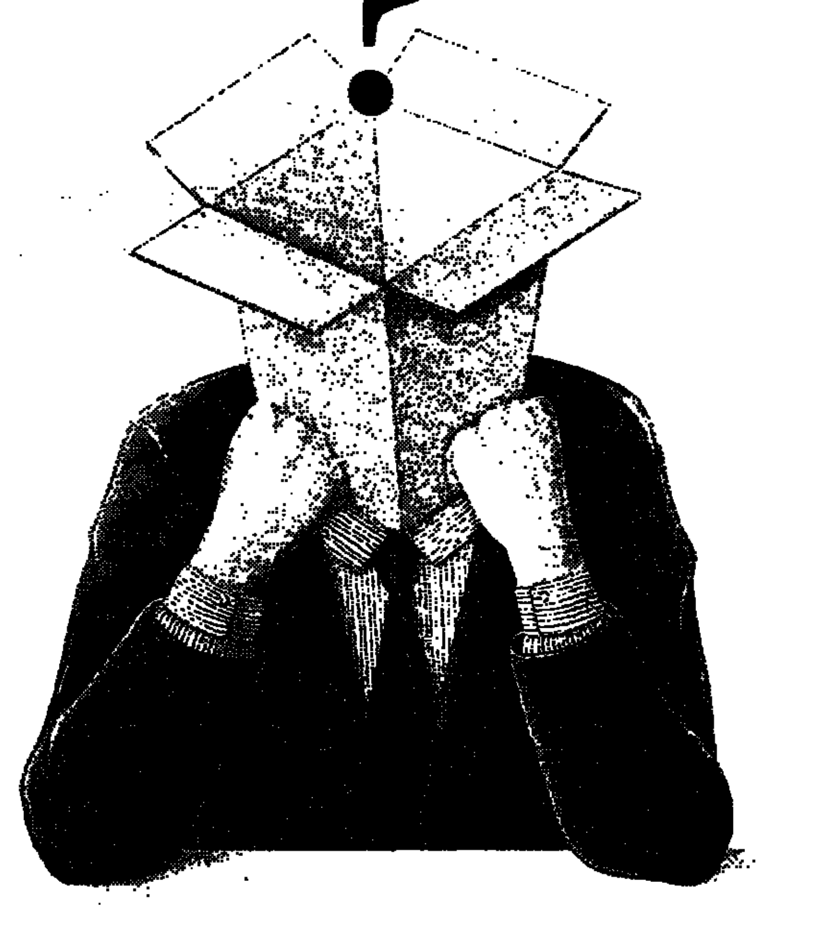
Trade balance with major partners (value in million U.S. dollars)

Italian Export to:		%	Balance '93
Germany	172	10.30%	97
U.S.A.	160	9.59%	139
France	153	9.17%	136
United Kingdom	127	7.61%	116
Spain	72	4.31%	67
Japan	65	3.89%	59
Switzerland	50	3.00%	20
Netherland	23	1.38%	10
Austria	18	1.08%	10
Sweden	14	0.84%	2
Other countries	815	48.83%	797
Total	1669	100.00%	1449

Source: Ucima-The Italian Packaging Machinery Manufacturers' Association - Economic Studies Bureau

Visit the Italian Packaging and Process Machinery Exhibition at the China International Exhibition Centre Beijing, 14-18 March 1995

PACKAGING ? PROBLEMS



CALL ITALY FIRST

Whenever packaging becomes a problem, calling Italian industries and experts becomes a must! Italian manufacturers are indeed at the top in terms of technology, quality, efficiency and ability to offer a personalized solution. One fourth of packaging machinery in the world is Italian made because its industry stands out internationally for its ability to meet the specialized need of manufacturers all over the world. The highest technologies and the ingenuity of craftmanship make Italian industries the ideal partners in finding the best packaging solutions. Yes, the world over!

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Fax (+39/2) 3450647

ITALIAN PACKAGING POINTS

Latin American Office
Mexico City
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Lancaster 17 - Col Juárez - Mexico D.F. 06600
Tel. (+525) 5251640/44 - 5111394
Fax (+525) 2088476 - 5140955

Far East Office
Hong Kong
c/o GCI Hong Kong
33 rd Floor - Manulife Tower - 169, Electric Road
North Point, Hong Kong
Tel. (+852) 5106888
Fax (+852) 5107541

UCIMA - THE ITALIAN PACKAGING MACHINERY MANUFACTURERS' ASSOCIATION

NEWS: THE AMERICAS

US growth fails to fuel consumer prices

By Michael Prowse in Washington

US consumer price inflation remains subdued despite further evidence of robust economic growth, official figures indicated yesterday.

The Labour Department said consumer prices rose 0.3 per cent last month and by 2.7 per cent in the year to November – in line with market projections. The "core" consumer price index, which excludes the volatile food and energy components and thus provides a better guide to underlying trends, rose only 0.1 per cent last month and by 2.8 per cent on an annual comparison.

Over the past three months core consumer prices have been even better behaved, rising at a annualised rate of only 2.3 per cent.

The encouraging inflation figures were not expected to dissuade the Federal Reserve from pushing short-term interest rates higher in coming months, although they reduced the pressure for an increase next week.

Separate figures from the Federal Reserve yesterday indicated the economy is rapidly absorbing spare productive capacity. Industrial production rose 0.5 per cent last month, bringing the gain in the past year to 5.7 per cent.

Manufacturing output rose 0.8 per cent last month and by 6.7 per cent on an annual basis. The rate of capacity utilisation in manufacturing rose to 84.4 per cent, well above the long-run average. Production gains were broadly based with output of consumer goods, business equipment and construction supplies rising 0.6 per cent, 0.7 per cent and 0.8 per cent respectively last month.

Figures yesterday also showed a small increase in the current account deficit to $41.7bn (£26.7bn) in the third quarter from $37.9bn in the second period.

While agreeing that immediate prospects for economic growth and inflation are excellent, many US forecasters are voicing reservations about the outlook for 1995 and beyond.

"The US faces a period of sub-standard growth next year," warned Mr David Resler, chief economist at Nomura Securities in New York. He said higher interest rates could result in a negative quarter next year and predicted that annualised growth would slow to 1.5 per cent in the second half of 1995.

Drive to make cuts in budget fizzles out

By George Graham in Washington

A high-powered commission set up to reform entitlement spending and taxation fizzled out yesterday, unable to agree on a set of concrete proposals to bring the US government's finances into balance in the next century.

The bipartisan commission, chaired by Democratic Senator Bob Kerrey and retiring Republican Senator Jack Danforth, agreed in August on an interim report painting a stark picture of spending on entitlements such as social security pensions or Medicare and Medicaid health programmes. They forecast that such spending would rise from 47 per cent of the budget in 1993 to eat up all government revenues by 2030.

But Mr Kerrey and Mr Danforth were unable yesterday to win support for their proposals, which included an increase in the social security retirement age to 70, reduced subsidies for Medicare health benefits for the elderly, and means testing for benefit payments.

Commission members shied away from voting for tough cuts in such politically sensitive programmes in what congressman Alex McMillan of North Carolina called "the current rush to provide more free lunches which is now abroad in the land".

Senator Dale Bumpers, another commission member, said the political climate was not yet right: "We all know that the problem is not unsolvable, it is just politically unpalatable to do it."

Economists and Federal Reserve officials had hoped that the Kerrey-Danforth commission might provide political cover for a Congress which has always been unwilling to touch entitlement spending such as social security, Medicare or veterans' benefits, which have large and politically vocal constituencies.

Relatively modest changes to benefits and eligibility could, if launched now and phased in gradually, have curbed the growth of entitlement spending in the next century.

In the wake of last month's sweeping Republican election victory, Congress is expected to pass a constitutional amendment requiring a balanced federal budget within seven years.

Collor gets written back into Brazilian soap

Critics and reformers see ex-president's acquittal on corruption charges as setback, writes Angus Foster

The case of Mr Fernando Collor, the jet setting Brazilian president who resigned in 1992 amid corruption allegations, has often been likened to one of the country's *novelas*, or TV soap operas. With the Supreme Court's decision on Monday to throw out the charges, Mr Collor has just been written back into the script.

The court's decision greatly increases Mr Collor's chances of staging a political comeback and running again for public office. If successful, he would provide a reminder to Brazil's Congress and judicial systems of how much remains to be done for the country's political process to be modernised and corruption weeded out.

Senator Dirceu Carneiro, who two years ago served notice on Mr Collor that impeachment proceedings were under way, said the court ruling was a serious setback in the country's attempts to tackle impunity. "Brazil has always suffered from an inability to punish the powerful. After several years of progress, this ruling is very worrying," he said.

Mr Collor resigned just before Congress completed the impeachment proceedings against him. He faced a single charge of "passive corruption" which alleged he and his campaign treasurer Mr Paulo Cesar Farias had swapped political influence for political gain. Although Mr Farias was given a seven years' prison sentence for setting up false bank accounts through which funds were channelled, the court decided there was insufficient evidence to link Mr Collor to Mr Farias' activities.

Collor: his acquittal on corruption charges may be first step in a political comeback

Mr Collor has consistently claimed he was the victim of a political plot. The court's decision will allow him to maintain the claim, even though the majority of Brazilians remain convinced Mr Collor did use the president's office for personal financial gain. In an opinion poll conducted before the trial, 60 per cent of people asked said they thought he should go to jail for his actions, although nearly 90 per cent thought he would not have to.

Mr Alexandre Barros, a political consultant, said: "If you belong to the élites, like Mr Collor does, you get judged by your peers and get off, while people from outside the élites like P.C Farias get punished."

Armed with the court's ruling Mr Collor may appeal against a separate Senate ban on his holding public office until the year 2000. Even if the appeal fails, Mr Collor would still be young enough to compete in the 2002 presidential and gubernatorial elections.

According to rumours in the capital Brasília, Mr Collor plans to visit New York to meet his younger brother, Pedro, who first triggered the corruption scandal with a series of allegations in a magazine interview. The two brothers have not talked since, but Pedro is extremely ill with cancer. Fernando, who has always been an expert at political marketing, may want to use the reconciliation as part of a wider reconstruction of his image in the Brazilian media.

"The 70 per cent of the electorate who lack a decent education will love it, because it is straight out of a novela," says Mr Luiz Pedone, a political scientist at Brasília University. He adds that Mr Collor's current high unpopularity will fade with people's memories. Although Brazil may never be ready to elect Mr Collor as president again, he could easily win the governorship or a senate seat in his home state, Alagoas.

Critics say Mr Collor's acquittal further undermines the reputation of Brazil's prosecution system, which has never been highly respected. Attorney General and prosecutor Aristides Junqueira was widely felt to have mounted a poor case. Important evidence for his argument, based on taped phone calls and computer discs, was ruled to be inadmissible because it had been seized without a court order as the constitution requires.

Politicians said that the Supreme Court, by rejecting Congress's ruling that Mr Collor was guilty, was "divorced" from society. One of the eight judges who heard the case replied: "We listen to the law, not public opinion."

But the biggest casualty of the court's decision is likely to be the confidence of those seeking to modernise Brazil's political system. Mr Collor's removal from office was seen as the most important example of progress, under way since the country's return to democracy in 1985. "It now seems the optimism that we had started to tackle corruption was false," according to says Mr Pedone.

The tide of pessimism triggered by the ruling may hide an important lesson, that tackling corruption will take many years rather than one ousted president. Observers say that while Brazilian corruption is no worse than in many countries, what makes Brazil's version so corrosive is that the country's institutions, still maturing after the years of military rule, allow a sense of impunity to prevail.

They point to the case of Senate president Mr Humberto Lucena who has been barred from office by the Supreme Court for illegally using the senate printing press to print calenders distributed free in his election campaign. The Senate immediately granted Mr Lucena an amnesty for the offence and he remains in office.

They also point out that outgoing President Itamar Franco, who called on Brazilians to "reach their own conclusions" about the court's capabilities, last month overlooked several qualified jurists for a Supreme Court nomination and instead appointed a friend, Mr Maurício Corrêa. Mr Corrêa, while justice minister, is best remembered for getting drunk at this year's Carnival.

Tax evaders may end up in prison

By Edward Orlebar in Guatemala City

Guatemalan tax evaders may end up in prison for not paying their taxes after Congress passed reforms to the penal code which will criminalise tax evasion for the first time.

The reforms which come into effect on February 1, allow for substantial fines and prison sentences of up to six years for tax evaders and for corrupt officials who accept pay-offs.

It also gives the government the right to close businesses temporarily.

The reforms will provide the coercive means to improve tax collection following the approval at the end of November by congress of a number of tax reforms intended to increase the tax burden from 7 per cent of GDP this year to 8.5 per cent in 1995.

Despite pressure from the private sector, the right-wing parties which dominate Congress approved an increase for the top bracket of income tax from 25 per cent to 30 per cent, imposed a 1.5 per cent tax on company assets and agreed to increase sales tax from 7 per cent to 10 per cent by January 1996.

NEWS: WORLD TRADE

Japan trade barriers cost consumers '$75bn a year'

By Guy de Jonquières, Business Editor

Japan's trade barriers cost Japanese consumers between $75bn and $100bn at prevailing exchange rates in 1989 – or between 2.6 per cent and 3.8 per cent of gross national product – according to a study* by three Japanese economists.

Without the barriers, Japanese imports of the most highly protected products, such as food, cosmetics and chemicals, would have doubled and each Japanese consumer would have been about $890 a year better off at 1989 exchange rates, the study says.

Complete trade liberalisation would have resulted in a fall in domestic production of more than 20 per cent in certain sectors, including wheat, oilseeds, leaf tobacco, canned fruit and vegetables, and cosmetics.

However, the authors say removal of import barriers would have only a small impact on Japan's trade surplus, because a reallocation of resources and macro-economic forces would cause its exports to rise almost as fast as imports.

Liberalisation would also result in the loss of 180,000 jobs. Although roughly 10 per cent of employment in the protected sectors, this is only 0.3 per cent of total Japanese employment.

Furthermore, the cost to the Japanese economy of preserving each job was about $94,000 a year in 1989, almost three times the earnings of an average salaried worker in Japan.

The estimates are much higher than those in similar previous analyses because the study is the first to try to calculate the impact of non-tariff barriers.

These are a far more important form of protection than tariffs in Japan and raise prices by more than 400 per cent in some cases, the study says.

It says that although Japan has liberalised some trade barriers since 1989, the restrictive effect of remaining protection appears to have increased in the past five years.

The study is based on a comparison between the unit values on a cif (carriage, insurance, freight) basis of imports landed at Japanese ports and of Japanese producer prices for more than 40 categories of goods.

It puts the unit value differential for all products surveyed at 178 per cent, and at 281 per cent for food and beverages. The highest differentials for individual products are 737 per cent for rice, 718 per cent for tea and roasted coffee and 662 per cent for cosmetics and toiletries.

In most cases, the study says, the differentials are largely caused by non-tariff barriers such as import quotas, preferential government procurement, price support programmes and restrictions on domestic sales.

However, it finds that a 607 per cent differential for radio and television sets is mainly due to the superior quality and technological sophistication of Japanese-produced products compared with imports.

Most of the value of the differentials is pocketed by Japanese producers. After allowing for the losses to producers, importers, distributors and government revenue, trade liberalisation would have benefited the Japanese economy by at least $17.4bn in 1989, the study estimates.

● *Measuring the costs of protection in Japan; by Yoko Sazanami, Shujiro Urata and Hiroki Kawai. $11.95 in US and Canada, £15.99 in other countries. Institute for International Economics, Washington DC. Tel: (202) 328 9000.*

Gatt deal sparks violence

Demonstrators clash with marines in the Philippines yesterday during a vote on the Uruguay Round trade treaty by senators. The senate ratified the accord as protesters tried to storm the building. Anti-Gatt senators said they would challenge the constitutionality of the pact, arguing the economy would be devastated by the massive inflow of imports the new trade accord would allow. Eighteen out of 23 senators voted in favour of the Philippines joining the new World Trade Organisation, two votes more than needed to ratify a treaty. Picture: Reuter

'Lack of investment hits Europe's biotech sector'

By Daniel Green

Europe's biotechnology industry is falling behind its competitors in the US because of lack of investment and unhelpful regulation, according to Professor Horst Schlumberger, head of Biotechnology Co-ordination at Bayer, the German chemicals company.

Mr Schlumberger said that if the current level of investment in Europe was not reversed, scientific talent would be unable to renew itself. He told delegates at the second day of a Financial Times biotechnology conference in London that the consequence would be an erosion of the competitive strength of Europe's research-dependent industries.

"Europe will become a net importer, not a producer and exporter of products of modern biotechnology," he said.

His argument was countered by Mr Jurgen Drews, president of international research and development at Roche, the Swiss drugs company.

Mr Drews said that European governments spent more than the US on funding basic research, which forms the foundation for the next series of medical advances. This meant that the present US lead in biotechnology could be "eroded over the long term", said Mr Drews.

In a lively debate, Mr Schlumberger said this was like having a modern luxury limousine parked outside one's home, but the regulatory constraints in Europe meant "its fuel is of low quality and it cannot fulfil its potential."

In an earlier session, Mr Carl Feldbaum, head of the Washington-based Biotechnology Industry Organisation, said that Mr Newt Gingrich, Republican speaker of the House of Representatives, had stated his intention to dismantle the Food and Drug Administration (FDA).

The FDA controls which drugs are approved to sale in the US, the world's biggest medicines market. The FDA has been criticised in the pharmaceuticals industry and among conservative politicians for its slowness and bureaucracy.

"Many in the biotechnology industry hope it [the dismantling] comes true," said Mr Feldbaum.

But Mr Feldbaum, a former chief-of-staff for Republican senator Arlen Specter, advised caution. He said there was only a small window of opportunity for substantive legislation before politicians' attention turned to the 1996 presidential elections. In his opening address, Mr Drews forecast that gene therapy, which uses DNA as a medicine, would take the place of many conventional drugs.

He held out a vision of a drug which need only be taken once a year rather than daily for diseases such as Parkinson's and Alzheimer's.

US probe into EU banana trade

By Canute James in Kingston

The US trade representative is investigating complaints from US banana producers that the European Union import regime, which favours banana suppliers in the African, Caribbean and Pacific (ACP) group of countries, is discriminatory.

Washington will hold talks with several Caribbean banana exporters in January over preferential access to the European market. "The US trade representative has told us that the investigation will focus on the trade practices of the EU, and is not directed against the Caribbean exporters," said Mr John Compton, the prime minister of St Lucia, the leading exporter in the Windward Islands. The investigation followed complaints from Chiquita Brands International, a US company producing bananas in Latin America, and the Hawaiian Banana Industry Association.

The charge was filed under Section 301 of the US trade act, and was supported by claims that the EU's import regime, implemented in July 1993, discriminated against fruit from Latin America. The import regime gives special access to exporters in the ACP group, about 70 former European colonies which have a trade treaty with the EU.

In a reversal of policy, the US government said last week that it will not object to a General Agreement on Tariffs and Trade waiver for the Lomé Convention, the trade and aid treaty between the EU and the ACP countries. This has reduced the threat to the ACP's preferential access to the EU market.

Officials from other Caribbean exporting countries said that the US trade representative's statement allowed the region's producers to "buy some time" but that the danger to the preferential EU market had not been removed.

The Caribbean Community (Caricom) said the investigation posed a threat to the Caribbean industry on which many island economies depend.

WORLD TRADE NEWS DIGEST

BAT to invest in Turkish venture

BAT Industries and Turkey's state tobacco company, Tekel, are to form a joint venture managed by the UK group to make cigarettes in Turkey. BAT will invest a substantial sum to turn Tekel's plant at Akhisar into a modern facility capable of supplying a large share of the market, according to a memorandum of agreement signed by the two. The joint venture will make several Tekel brands and a range of BAT's international brands such as Kent, Lucky Strike and Pall Mall. In common with other international companies, BAT has been pushing into countries opening their markets to foreign investment. It has, for example, completed deals in five former Soviet bloc countries. When investment in the five countries is completed in five years, BAT's annual manufacturing capacity will rise by 100bn cigarettes from 540bn now. *Roderick Oram, Consumer Industries Editor*

MEPs endorse Gatt trade pact

The European Parliament yesterday voted overwhelmingly in favour of the General Agreement on Tariffs and Trade global pact, boosting prospects that the accord will be ratified by member states of the European Union on schedule by the end of this month. MEPs voted 325 in favour, 62 against, with 12 abstentions. The Strasbourg assembly showed broad cross party support for the Gatt agreement, despite criticism from a protectionist force led by Sir James Goldsmith, the Anglo-French businessman elected as an MEP in this year's elections. *Lionel Barber, Brussels*

Taiwan eyes Chinese market

Taiwan's motorcycle manufacturers, the world's second biggest, expect to export more motorcycles to China to meet surging demand there. "We plan to export half of our annual production next year, and most of this to mainland China," said Mr Wang Shuang-ching, president of Kwang Yang Motor, Taiwan's leading motorcycle maker, which expects sales of 700,000 motorcycles in 1995, up from 500,000 this year. Taiwan's motorcycle sales reached 1.49m in 1993, ranking second only to Japan. Of these 1993 sales, 20.9 per cent were exported, considerably higher than the 3.9 per cent of the 1.1m sold in 1989. Motorcycle exports to China accounted for 69 per cent of motor cycle exports last year. The rest were to south-east Asian and some European countries. *Reuter, Taipei*

Canada and US in timber deal

Canada and the US will soon announce a new "consultative mechanism" to head off potential disputes over softwood timber. Under the bilateral pact, Canadian softwood construction timber exports to the US will not attract import penalties and the US timber industry will be able to examine how Canadian provinces, especially British Columbia, levy cutting royalties and fees. The US industry has argued for years that some Canadian provinces charge low royalties and give their producers an unfair advantage in the US market. Canada exports more than $4bn of softwood timber a year to the US, Asia and Europe. Government officials will meet regularly to monitor bilateral timber trade. The pact will enable the US to return $600m in duties collected after imposing a 6.5 per cent countervailing duty on Canadian softwood in 1992. *Robert Gibbens, Montreal*

■ Aker Verdal, a yard owned by the Aker group of Norway, yesterday was awarded a NKr240m ($35.3m) contract by Phillips Petroleum Norway to build a steel substructure for the 2/4X oil platform to be installed as part of the Norwegian North Sea Ekofisk upgrading project. *Karen Fossli, Oslo*

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Latest government figures indicate that inflation and average earnings are edging upwards

Rapid growth fuels interest rate rise fears

By Gillian Tett and Philip Coggan

Fears that UK interest rates may have to rise further were fuelled yesterday by signs that recent rapid economic growth is creating new inflationary pressures.

Official figures showed that inflation and average earnings are edging up. Meanwhile unemployment is falling at an accelerating rate, suggesting that with fewer people out of work, wage demands may rise.

Mr Kenneth Clarke, the chancellor, yesterday played down the inflationary dangers by stressing that the overall economic picture was "extremely good", with plenty of spare capacity.

"(Inflation) is not a risk for the economy at the moment," he told MPs.

However, the Treasury yesterday said the inflation data provided a further demonstration of the pressures that had prompted the ½ point rise in interest rates this month from 5.75 per cent to 6.25 per cent.

"We have probably seen the trough of low inflation for now," an official said, pointing out that the Treasury forecast assumed inflation would rise to 2.5 per cent by late next year.

The Central Statistical Office yesterday said the retail prices index rose by 2.6 per cent in the year to November, up from 2.4 per cent in October.

The government's targeted inflation measure, which excludes mortgage interest payments, rose by 2.3 per cent in the year to November, from 2 per cent in September and October.

The increase was boosted by unusual factors such as a sharp rise in milk prices after the recent reform of the Milk Marketing Board. But price rises also occurred in the clothing and household goods sectors which had seen severe discounting earlier in the year.

The increase in inflation surprised the City, and analysts warned that the Budget measures and recent interest rate rise could push the index higher next year. The CSO said the Budget's tax changes – including the additional measures announced by Mr Clarke to replace higher value-added tax on fuel – would add 0.79 percentage points to the annual headline inflation rate over the next few months.

Meanwhile, the underlying rate of average earnings growth edged up to 4 per cent in October, from 3.75 per cent in September. The Department of Employment said overtime and bonus payments, rather than higher pay settlements, had led to the rise.

Nevertheless, Mr Michael Portillo, employment secretary, expressed concern. "Companies must keep a firm grip on pay if competitiveness is to be maintained, enabling the maximum number of jobs to be created," he said.

However, the rise in average earnings has yet to have an effect on UK manufacturing competitiveness, since productivity is outstripping wages growth. In the three months to October, manufacturing unit labour costs were 1.7 per cent lower than in the same period of 1993, the sharpest fall since records began in 1970.

'No plan for' broadening of value added tax

By Peter Norman, Economics Editor

Mr Kenneth Clarke, the UK chancellor, said yesterday that he did not intend to use the lower 8 per cent value added tax rate, that now applies to domestic fuel and power, to broaden the VAT base in the UK tax system.

"I have no intention of building on the lower rate", he told the cross-party Commons treasury and civil service committee.

He said he did not choose to have the lower 8 per cent VAT rate; that was forced on the government by last week's Commons defeat of its plans to lift VAT on fuel to 17.5 per cent, and he did not plan to rush back into broadening the VAT base. He had not, for example, considered levying VAT on newspapers or magazines when preparing his recent Budget.

Giving evidence on a wide range of issues, the chancellor said:

● he hoped that following the supply side reforms of recent years, the UK economy could sustain growth at a faster annual rate than 2 per cent to 2.5 per cent without running the risks of inflation.

● that he had acted promptly last week to plug the hole in his Budget caused by the VAT revolt because it was dangerous for a nation to borrow heavily in financial markets.

● that political considerations had reinforced his decision last week to raise base rates to 6.25 per cent from 5.75 per cent. However, the rate rise had been justified on economic grounds.

Mr Clarke stressed that he was pleased with the present monetary regime in which there was more openness over policy and the governor of the Bank of England played a more prominent role than previously. But in a cryptic remark, he hinted that the rate rise might be reversible if conditions warranted. It was "possibly one of the few reversible decisions I have taken", he said.

Mr Clarke was upbeat about the state of the UK economy. Britain as an industrial nation was "now quite spectacularly good" compared with 15 years ago. He cited Mr Jacques Delors, the outgoing president of the European Union commission, as having said that the UK would be only one of three EU countries to meet the economic convergence criteria of the Maastricht Treaty in 1996. The UK would meet them easily, while Germany would need "good luck and a following wind".

This meant that Britain was on course for the "ideal situation" of being able to decide if it wanted to enter the third and final stage of economic and monetary union with a single currency and European central bank.

His main aim was to keep Emu as a "genuinely open option" for the UK.

He was less forthcoming about future taxation policy and refused to be trapped into naming the conditions in which he would or would not cut taxes in a future Budget.

Government welcomes employment data

By Philip Coggan

Mr Michael Portillo, the UK employment secretary, yesterday welcomed signs that the figures measuring employment were moving in the right direction.

Unemployment had been falling steadily since December 1992 but the figures for the workforce in employment, compiled from a survey of employers, had previously been showing declines.

Yesterday's Department of Employment figures showed that employment rose by 146,000 in the third quarter, the largest quarterly increase since 1989. This brought the measure into line with the Labour Force Survey, which produces statistics on the basis of interviews with individuals, and which has been recording steady employment increases.

The LFS, which is conducted on a slightly different timescale from the employers' survey, found an increase in employment of 64,000 between the spring and the summer.

Mr Portillo said he felt the employers' survey followed the LFS with about a six-month lag, which mainly reflected the delays between the establishment of new businesses and the reporting, via the Inland Revenue, of job creation to the Department of Employment.

The main increase in employment was a rise of 126,000 in the services sector, according to the employers' survey, while self-employment rose by 40,000. About 52,000 of the services increase came from the banking, insurance and financial services sector. Employment in the manufacturing sector rose by just 2,000 in the third quarter, but this gain was wiped out in October.

The number of people out of work and claiming benefit fell by a seasonally adjusted 43,400 in November to 2,470,500, or 8.8 per cent of the workforce. This was the lowest total since September 1991; unemployment has now fallen by 501,000 since its peak in December 1992. Last month, unemployment fell among men and women in every region.

Following a revised fall of 48,400 in October (the previous estimate was 45,800), the unemployment total has now dropped by an average of 31,800 over the last six months. However, the Department of Employment still estimates the trend is for a monthly decline of 25,000.

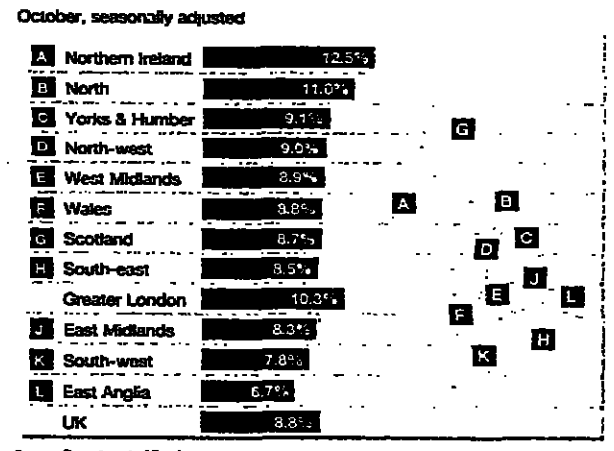
Unadjusted, the number of unemployed people fell 32,031 to 2,423,013, or 8.6 per cent of the workforce.

The LFS shows that growth in full-time employment outstripped that of part-time jobs between the spring and the summer. In many previous quarters part-time work has predominated. The survey also finds that the number of discouraged workers – those who were not seeking work because they believed no jobs were available – dropped by 14,000 between the summers of 1993 and 1994.

Meanwhile, the stock of unfilled vacancies at jobcentres rose by a seasonally adjusted 3,400 in November to 180,600, the highest level since June 1990. More people – 174,200 – were placed in jobs by employment centres than in any month since the series began in 1980.

Unemployment

October, seasonally adjusted



Source: Department of Employment

Toyota production may be restrained

By John Griffiths

Weaker than expected new car demand in Europe means Toyota will not use the full capacity of its Burnaston plant near Derby next year, the Japanese car company said yesterday.

It is planning to produce 90,000 cars next year, instead of the full capacity of 100,000, compared with a projected 85,000 in 1994.

"However, as we have seen this year – which started strongly then slowed more recently, the market is changeable and production levels may be amended accordingly", said Mr Yukihisa Hirano, managing director of Toyota UK.

Toyota's announcement, the failure of Nissan this year to meet earlier output projections for its plant at Washington, Tyne and Wear, and relatively slow growth in output of Honda's production plant at Swindon in Wiltshire, indicate that other European car makers' fears that Europe's motorists would buy as many cars as the Japanese "transplants" cared to produce may have been overstated.

Nissan is expected to produce around 200,000 cars this year, compared with earlier forecasts of 230,000-240,000.

For 1993 it had projected output of 270,000 but at the end of that year halved production rates to bring output in line with demand, reducing 1993's total production to 246,000.

Honda, which is preparing production of a second car at 100,000 units a year capacity plant at Swindon, built 29,300 Accord models in the first nine months of this year.

Mr Hirano rejected speculation that Toyota has decided to delay outline plans to double the capacity of the Burnaston facility.

"As we have said from the outset, we will monitor the market as it develops to determine when to move to phase two and 200,000 cars a year," he said.

He would not elaborate on whether Toyota would seek to achieve the higher volume with the single model it currently builds at Burnaston, the Carina E, or whether the Carina would be joined by a second model, such as the smaller Corolla.

However, he confirmed that from the middle of next year Burnaston would start building estate versions of the Carina.

These account for 12-15 per cent of the Carina's sales in Europe and are currently imported from Japan.

The company said Burnaston-built cars had now reached 80 per cent "local" European content, some six months earlier than originally planned.

Tory Euro-rebels in new challenge over referendum

By James Blitz

The conservative party's Euro-rebels yesterday launched a new challenge to the government by setting out plans for a private member's bill to hold a referendum on the UK's future in Europe.

The bill, proposed by Mrs Teresa Gorman, the MP for Billericay, would require the government to hold a referendum on Britain's membership of the European Union before the EU's Inter-Governmental Conference in 1996.

Private member's bills have rarely found their way onto the statute book because of co-ordinated opposition to the proposed legislation from government whips.

But Mrs Gorman's bill, which could be debated within eight weeks, may create new embarrassment for Mr John Major's government amid signs that it will gain cross-party support from Euro-sceptics.

In recent weeks, Mr Major has raised speculation he will call a referendum on the next stage of European integration by refusing to rule out the possibility of holding one.

However, pro-European members of the cabinet, including Mr Kenneth Clarke, the chancellor, and Mr Michael Heseltine, the trade secretary, have reacted sceptically to the idea of a referendum, saying that the agenda of the IGC in 1996 is still undecided.

One of the nine Euro-sceptic MPs who recently lost the Tory whip after voting against the government said the bill would "flush out" the different opinions of ministers.

The bill proposes a consultative referendum – which would not be binding on the government – by the end of March 1996.

Voters would be asked to endorse one of three possible outcomes: that the United Kingdom "remain in the Union, but only so long as it remains an economic organisation of member states"; that it adhere to a federal organisation with a common currency; or that it "withdraw altogether from the union."

The bill would need the backing of 100 MPs at second reading to make any political progress.

Mr Tom King, a former Conservative defence secretary, was yesterday appointed chairman of a cross-party parliamentary committee set up to monitor the security services.

The committee, set up under the Intelligence Services Act, establishes a measure of parliamentary control for the first time over the three security services - MI5, the domestic intelligence service, MI6, its overseas equivalent, and GCHQ, the electronic monitoring centre at Cheltenham.

The committee will scrutinise the expenditure, administration and policy of the security services, but not their operational planning or activities.

The committee, appointed by Mr John Major after consultation with Mr Tony Blair, the Labour leader, comprises five Conservatives, three Labour MPs and a Liberal Democrat.

UK government moves on animal welfare legislation

By Deborah Hargreaves

Mr William Waldegrave, the agriculture minister, introduced new UK legislation yesterday to improve the welfare of live animals in transit to the continent following the failure of European Union agriculture ministers to agree controls on the trade.

The new national measures, which come into force on January 23, make it a criminal offence to breach journey plans that must accompany animals on trips longer than 15 hours.

"We cannot do nothing because Europe cannot agree. That's why we are now pressing ahead with our own measures to fill the gap," said Mr Waldegrave, after ministers abandoned plans on Tuesday to agree rules which could be enforced across the EU.

But the Royal Society for the Prevention of Cruelty to Animals said yesterday the new legislation did little to remove its opposition to the cross-channel trade. "It still leaves millions of animals in the lurch with long journey times," an official said.

The RSPCA wants the EU to introduce a maximum journey time of eight hours, but Mr Waldegrave's new legislation states only that animals should be fed and watered after 15 hours. The RSPCA's opposition to the transport of live animals has persuaded Britain's ferry companies to ban the carriage of livestock for slaughter.

The ferries said yesterday they were still studying the new legislation, but had so far found little in it to encourage them to change their minds. "The issue is about what happens to animals on the other side of the continent and whether this can be enforced over there," said an official at P&O.

Mr Waldegrave said he had agreements from French, Dutch and Spanish authorities to provide information towards the prosecution of offenders. But the RSPCA believes it would be impossible to enforce the measures on the continent. "With no inspectors or agency to enforce it, it looks like it will be left to us to police this code," an official said.

The new rules mean that animal hauliers must file a journey plan for all trips of over 15 hours. If they fail to stick to the plan, they could face prison or fines of up to £5,000.

Politics dominates investment conference

By John Murray Brown
in Belfast

Politics was never far from delegates' minds during yesterday's Belfast International Investment Conference.

Even the walkout by Sinn Féin, the IRA's political wing, although a clear disappointment to the government, failed to overshadow proceedings.

In the end, the event attracted prominent members of parties from across Ulster's political spectrum, which could augur well for the prospects of the round table talks which it is hoped will eventually be convened on the future of the province.

The sheer buoyancy of the mood and the enthusiasm of the welcome given to the prime minister John Major and US commerce secretary Ron Brown suggest the peace process is building to a point where it is increasingly difficult for the main players, including Sinn Féin, to contemplate staying outside.

The conference comes at a vital time after long delays in forming a new Irish government which has raised questions about the the nature of Sinn Féin's relationship with the new Irish coalition partners, and cast doubt over the progress on the framework document, which the two parties envisage as the basis of all-party talks on the constitutional arrangements for the province.

More than anything, the conference has demonstrated Mr Major's personal commitment to maintain the momentum of the peace process. It has also served to underline the practical benefits that will flow from a durable settlement.

In outlining a plan for a jobs creation scheme, Mr Major seemed keen to counter criticism by Sinn Féin that their supporters in the deprived areas of Catholic West Belfast were being ignored by the conference.

The programme will do much to underscore the government's commitment to address the long term structural problems of the economy, widely seen as having inflamed community relations.

Attention now turns to the talks with the paramilitaries with exploratory session due to get under way with the loyalists in Belfast today. On Monday, British officials will meet with Sinn Fein for the second time, when both sides are expected to draft a more detailed agenda to govern future exchanges.

However, observers do not expect the talks to broach any of the contentious issues until at least February. Mr Major yesterday again stressed to address the issue of the IRA' large stockpile of weapons and explosives, before the other political parties would countenance entering full all party negotiations involving paramilitary representatives.

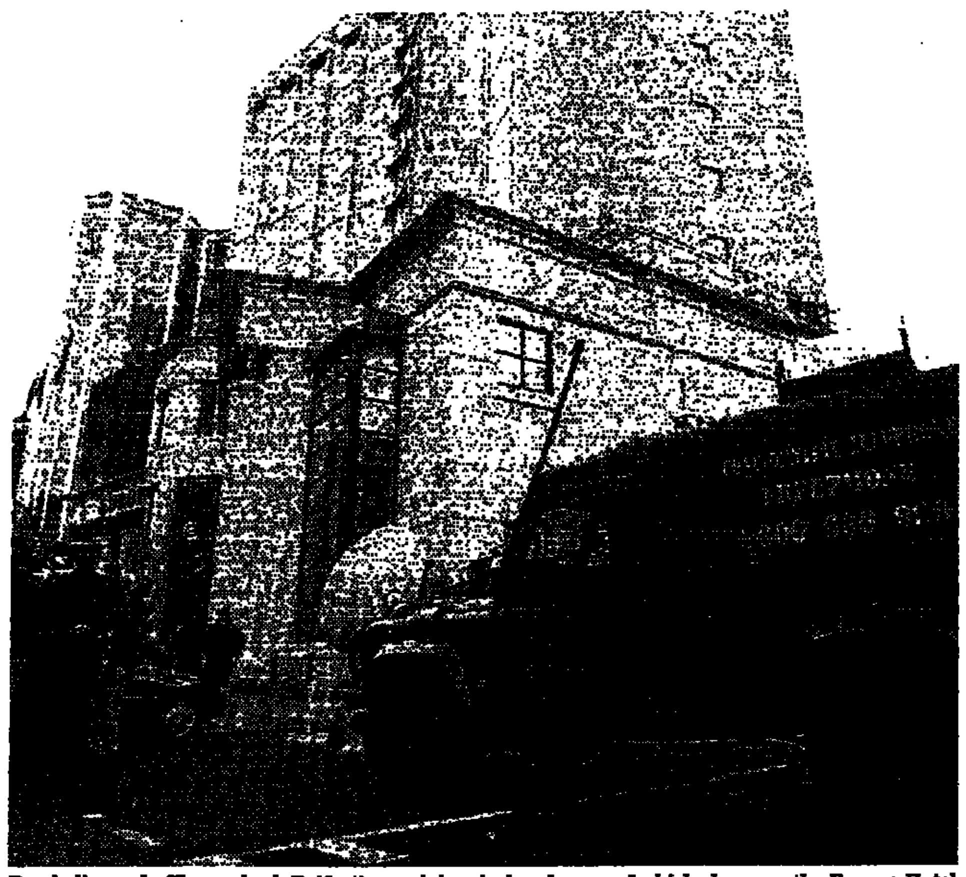
For the future, Much will depend on the outcome of the search for a new coalition in Dublin. Last night, a new three-party coalition seemed about to be announced led by Fine Gael, a broadly conservative party, with Labour and the Democratic Left, replacing the Fianna Fáil-Labour coalition which collapsed last month over a judicial appointment scandal. Traditionally, Fine Gael has been more sympathetic than Fianna Fáil to Ulster unionists, while Downing Street is keen to see that Fianna Fáil, a vital player in Dublin's contribution to the peace process thus far should not be isolated following its move to the opposition benches.

In exchanges in Dublin's Forum for peace and Reconciliation, last week, Sinn Féin is said to have expressed visible disapproval for Fine Gael's presentation on the problems of the province.

One concern is that Sinn Féin may feel increasingly isolated from politicians in Dublin, which may strengthen the position of hardline republicans opposed to the ceasefire.

Equally, Sinn Féin has poor relations with Democratic Left, the successors to the Official IRA, from which the Provisional IRA split in the 1970s to pursue the armed struggle.

But the recent political crisis has left so much bad feeling between the parties that many observers believe Fianna Fáil deputies will be in no mood to cooperate with a Fine Gael-led coalition even on issues as close to their heart as the settlement of the Northern Ireland conflict.



Bomb disposal officers check Belfast's much-bombed and now refurbished venue, the Europa Hotel

UK NEWS DIGEST

Post Office shows big rise in profits

Britain's Post Office yesterday reported half-yearly pre-tax profits up more than threefold on last year, and announced that there would be no early increase in postage prices.

In spite of uncertainty about the future status of the industry, Post Office pre-tax profits rose to £198m in the six months to September 25, from £58m for the same period last year.

This puts the Post Office on course to meet its government levy of £226m, taken from its post-tax profits for the full year 1994-95, without a stamp price rise. However, Mr Michael Heron, chairman, refused to rule out a price rise for the whole of 1995. The results showed a rise of 1m in the number of letters delivered a day, taking the figure to 64m.

Mr Heron continued to insist that decline was in prospect unless the government gives the Post Office greater commercial freedom to run the Royal Mail, the letter delivery division which accounts for most of the industry's turnover and profits.

The government last month backed away from its plan to privatise the Post Office, fearing that the steadfast opposition of about 10 Tory MPs would lead to defeat in the Commons. Mr Michael Heseltine, trade and industry secretary, has yet to decide the future status of the industry within the public sector.

Papers 'victory' on lottery

Britain's national newspapers went to the High Court yesterday and persuaded a judge to lift an injunction preventing publication of the name of the winner of last weekend's £17.8m ($28.35m) lottery winner. Then they decided not to publish it.

"We said we would respect the winner's anonymity on the front page. To go back on that would be sheer hypocrisy," said Mr Stuart Higgins, editor of The Sun. The paper had gone to court because Camelot, the lottery organiser, "has no legal right to tell us how to do our job", he said.

The Sun said it would decide the issue on a case by case basis. If Myra Hindley, the Moors murderer, or Prince Edward won the National Lottery, The Sun would know where its duty lay.

At The Sun's rival, the Daily Mirror, editor Mr Colin Myler also said he had no intention of publishing the winner's name. The Daily Mirror's attitude was praised by Sir John Wood, the High Court judge who heard yesterday's appeal against the injunction.

"We went to court to protect the right to print or not as opposed to being dictated to by Camelot," said Mr Myler. "What, for example, if the Queen wins the lottery?"

Move on Maxwell creditors

Creditors of Maxwell Communication Corporation could receive dividend payments from March or April next year following a legal victory by the MCC liquidators.

Liquidators of Bishopsgate Investment Management, the main Maxwell pension fund managers, were yesterday refused leave to go to the House of Lords to contest an appeal court decision that BIM did not have a prior claim to the first £235m of MCC assets.

The decision means Price Waterhouse, the MCC liquidators, hopes to return to the High Court early in the new year for rulings that will decide the mechanics of distributing the assets.

The MCC liquidators have so far recovered more than £660m from asset sales, of which £500m is thought to be available for distribution.

Power station behind schedule

Nuclear Electric, the state-owned generator, is 20 days behind schedule in its programme to start up Sizewell B in Suffolk, Britain's first pressurised water reactor nuclear power station.

Work on commissioning the £2.03bn plant is proving more complex than expected and the reactor is unlikely to start generating electricity until the end of the month.

Engineers still hope to achieve full power by the end of February in line with a commitment given to the government when the project was given the go-ahead.

All stages in commissioning are being closely monitored by the Nuclear Installations Inspectorate, the UK nuclear safety watchdog. Construction of Sizewell B began in 1987 and was completed within budget earlier this year.

Progress on plans for a £3.5bn twin reactor Sizewell C station await the outcome of the government's current nuclear review.

Synthetic fibre grant blocked

The European Commission has blocked a £750,000 government grant to Carpets International, formerly Abingdon Carpets, to produce synthetic fibres at Crumlin, Gwent.

The company had hoped for assistance from the Regional Development Grant Scheme. But the Commission said there was too much capacity in the sector.

A Commission statement pointed out that such cuts are a key condition of granting aid to the synthetic fibres industry under a code last updated in 1992.

Voters ready to pass verdict on troubled Tories

By Paul Cheeseright

The electors of Dudley West today will give the new Labour party of Mr Tony Blair the first indication of how successful it has been in trying to convince longstanding Conservative voters that it is the most reliable guardian of their interests.

The result of the by-election in the West Midlands constituency will indicate how deep is the loyalty of voters who turned towards the Conservatives between 1979 and 1987, when the Conservative majority increased from 1139 to 10,224.

Opinion polls during the campaign have suggested that the Conservative share of the vote could drop from 49.8 per cent, recorded at the 1992 general election, to around 20 per cent.

But Conservative and Labour officials have responded cautiously to the polls, one side anxious to keep up morale, the other to dampen wild expectation of a landslide. Both sides agree that their ability to bring out the vote, at an unfriendly time of the year for a by-election, is crucial.

The constituency is one of the more prosperous in the Midlands with owner-occupation rates in line with the leafy dormitory towns of south east England. It was 54th on Labour's list of seats necessary to win the last general election. In the event, Dr John Blackburn, whose death in October caused the by-election, held it with a majority of 5,789.

The campaign attracted the participation of more senior members of the Labour Party than senior members of the government. They played their part in the usual by-election rituals: canvassing, personal appearances in the hope of attracting television cameras and political argument by press conference.

Generally the conduct of the rituals has been well-mannered. Both Conservatives and Labour claim to have spent their time arguing the national issues of the day.

But Dudley West has been pushed into the shade by, for the government, embarrassing events at Westminster - the disclosure of internal Conservative discontent, the VAT row, the Euro row, and the mini-budget.

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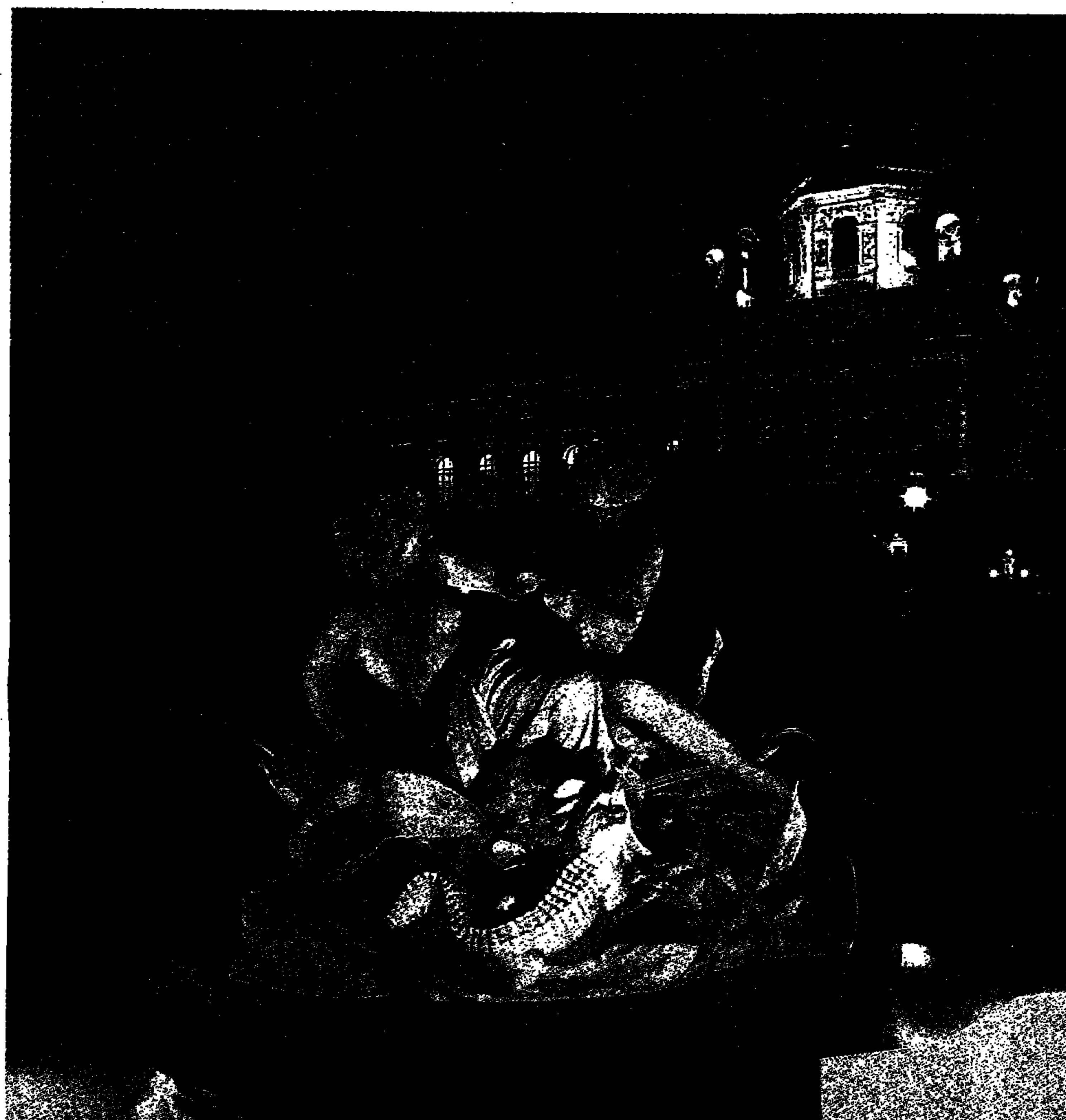
SIEMENS
NIXDORF

INFORMATION TECHNOLOGY IT-WORLD NEWS



Vienna: Austria's biggest ever computer contract goes to Siemens Nixdorf.

Siemens Nixdorf has been awarded the contract for the Austrian Labour Market Service (AMS) as the single source partner and prime contractor for an extensive outsourcing project. By 1997, according to the project, 114 provincial and regional offices and 31 employment information centers nationwide will have changed over to a new client-server system and will be integrated in an online Ethernet network. At 2.1 billion schillings (around US$ 200 million), this is the largest IT contract ever awarded by the Austrian Republic, and represents a major order for Siemens Nixdorf's UNIX computers – a total of 220 RM400 and RM600 high-power computers are to be installed as local servers for 5,200 PCs, 3,400 printers and fully integrated self-service terminals. With just a few keystrokes, the job seeker can access all the data in the computer system, not only details of job vacancies and training and re-training opportunities nationwide, but also background information on the economic state of the local job market or the state of the local housing market. This facility will soon cover the whole of Europe. The Siemens Nixdorf solution is open for connection to the "Eures" work placement system. Just how effectively Siemens Nixdorf solutions are working for employment authorities is demonstrated by similar facilities already operating in seven European countries, where the national average period of unemployment has decreased by two days, with commensurate savings on state unemployment benefits.

Madrid: The nationwide flight information network from Siemens Nixdorf is cleared for take-off.

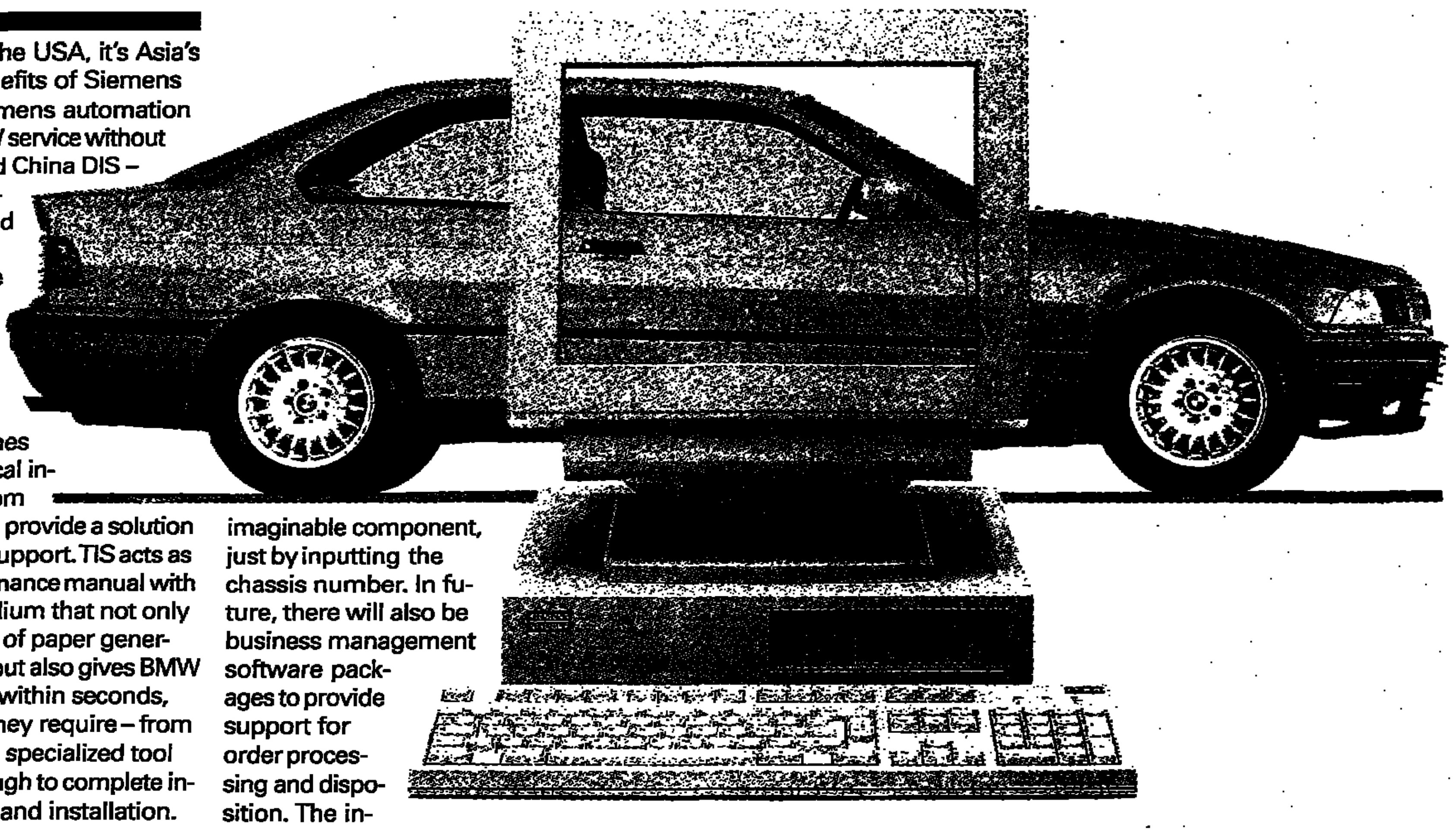
Siemens Nixdorf has landed a contract with AENA (Aeropuertos Nacionales y Navegación Aérea), implementing the largest flight-safety communications system in Spain based on X.400 standards – at nine airports so far. Major expansion of the network is envisaged for next year. Airports are able to communicate with each other within seconds via E-mail. Data on flight cancellations, delays, earlier arrival times or modified flight routes are exchanged from computer to computer to allow rapid response on the ground. High-speed computers provide supersonic speed for the commmunication channels: nine Pentium PCs as servers for the local networks at the airports and two RM computers installed as network and back-up computers in the central AENA service points connected with all airports. Efficient, fast and easy to operate with Windows – these were the features that convinced AENA. It is planned to extend the solution by additional commercial and administrative applications and to integrate it into other airport networks such as SITA and AFTN. To achieve this, Siemens Nixdorf will install new Pentium computers as well as 17 RM400 systems in the second and third phases of the venture.

Brussels: X-Fire-CS on permanent emergency assignment for the Belgian Ministry of Internal Affairs.

Fast, reliable and compatible – Siemens Nixdorf's new open systems policy has the Belgian Ministry of Internal Affairs convinced. To enhance the exchange of information via the "National Information Network for Fire and Rescue Services" (RINSIS), the Ministry placed an order for RM computer technology on an open UNIX system basis. In future the system will link the Government's coordination center with 450 workstations at regional and local emergency call reception points, fire services, and civil defence and rescue organizations throughout Belgium – nationally via Bemilcom, the Belgian military network, via X.25, and locally via Ethernet. With the combined power from RM computers and workstations and the X-Fire-CS solution intervention management and control system, when an emergency occurs, RINSIS can be used to immediately activate the required countermeasures, and for total coordination of emergency measures on the spot. What sort of emergency is involved? Fire, flood, road accident or chemical spillage? Are there casualties? What is the best strategy to deal with the disaster and rescue and shelter the victims? All these questions can be quickly clarified with X-Fire-CS, ensuring that the right emergency resources arrive at the scene of the event, fully informed and with the right equipment. RM computers form the cornerstone of the network. They provide all the networked workstations with all the required data – quickly, and extremely reliably, thanks to special fail-safe facilities. They ensure that, with RINSIS, the data processing operation runs flawlessly and without panic.

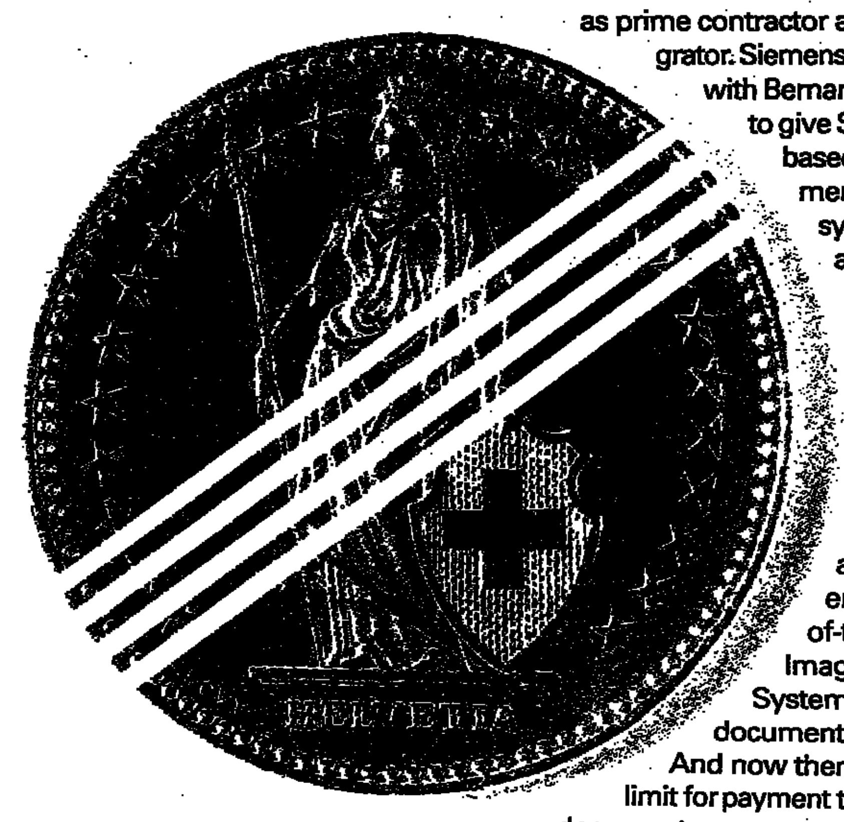
SIEMENS NIXDORF

Munich: Siemens Nixdorf makes service for BMW customers just a matter of a quick pit stop.



After Europe and the USA, it's Asia's turn to get the benefits of Siemens Nixdorf IT and Siemens automation technology for BMW service without delays. In Japan and China DIS – the Siemens Automation diagnosis and information system to identify possible problem areas, in conjunction with onboard diagnosis in each BMW – is also being tested. This system combines with TIS, the technical information system from Siemens Nixdorf, to provide a solution for efficient service support. TIS acts as an electronic maintenance manual with a CD-ROM data medium that not only reduces the volume of paper generated to a minimum, but also gives BMW service technicians, within seconds, all the information they require – from details of the correct specialized tool to be used right through to complete instructions on repair and installation. The two systems can be integrated into a single comprehensive retailer information system – with other Siemens Nixdorf components such as the Electronic Parts Catalog (EPC) with data stored and ready for queries on every imaginable component, just by inputting the chassis number. In future, there will also be business management software packages to provide support for order processing and disposition. The introduction of this UNIX solution in Japan and China will mean that, by the end of 1994, there will be around 2,500 DIS, TIS and EPC systems in operation worldwide. So that in more than 100 countries the magic formula for rapid BMW customer service will be: integrated information and automation technology from Siemens and Siemens Nixdorf.

Basel: No more speed limits for payment transactions at the Swiss Bank Corporation.



Payment transactions were grinding to a halt because of the millions of documents involved – transfer orders, cheques, direct debit orders – in spite of home banking, self service terminals and other alternative routes. The Swiss Banking Corporation (SBC), the third largest financial institution in Switzerland, decided it was time to tackle the problem – with a state-of-the-art solution from Siemens Nixdorf as prime contractor and system integrator. Siemens Nixdorf worked with Bernard Schifer GmbH to give SBC a document-based automatic payment transaction system, interbank and in dealings with the Post Office. Siemens Nixdorf installed, integrated and networked RM600 computers, PCs, scanners and form readers for the state-of-the-art Open Imaging Processing System (OIPS) – digital document processing. And now there's no speed limit for payment transactions – the documents are scanned and digitalized using the OCR system, and the data is forwarded to the UNIX computers for processing and archiving. The information can be called up from each workstation in the client-server architecture, and further processed by special programs, with total reliability according to the "zero error" principle. The result? Efficiency gains of 50% and investment protection into the future, thanks to the flexible and open-ended nature of the solution. Less paper, less input in processing and archiving documents – that's how the Open Imaging Processing System from Siemens Nixdorf helps the Swiss Bank Corporation to enhance its payment transaction processing operations.

London: British Ministry of Agriculture opts for RM computers and no longer stands alone.

The British Ministry of Agriculture, Fisheries and Food (MAFF) has adopted RM computers as the center and cornerstone of an all-new client-server architecture, doing away with its former island solution. Under its multi-million major contract with MAFF, Siemens Nixdorf has linked previously isolated hardware and software systems from different manufacturers and networked these with 4,000 Siemens Nixdorf PCs and 40 RM600 UNIX servers, to create a state-of-the-art multivendor environment with a client-server architecture incorporating the best systems from Siemens Nixdorf and other suppliers. From today's 4,000 workstations at Head Office and in the regions, the solution is to be progressively expanded connecting MAFF with all its district offices. Communications run via a wide area network (WAN), accessible to all computers via open X.400 and X.500 interfaces. The network can be used, for example, to send E-mail messages from Head Office to remote locations, thanks to a user interface, which provides a standard presentation for all the different programs, from word processing through to document production and management. The combined power of these computers, led by the RM systems satisfies MAFF's current data requirements, in relation to agricultural support in line with EC policies.

Bonn: Teleko

Fürth: Quell the Europea

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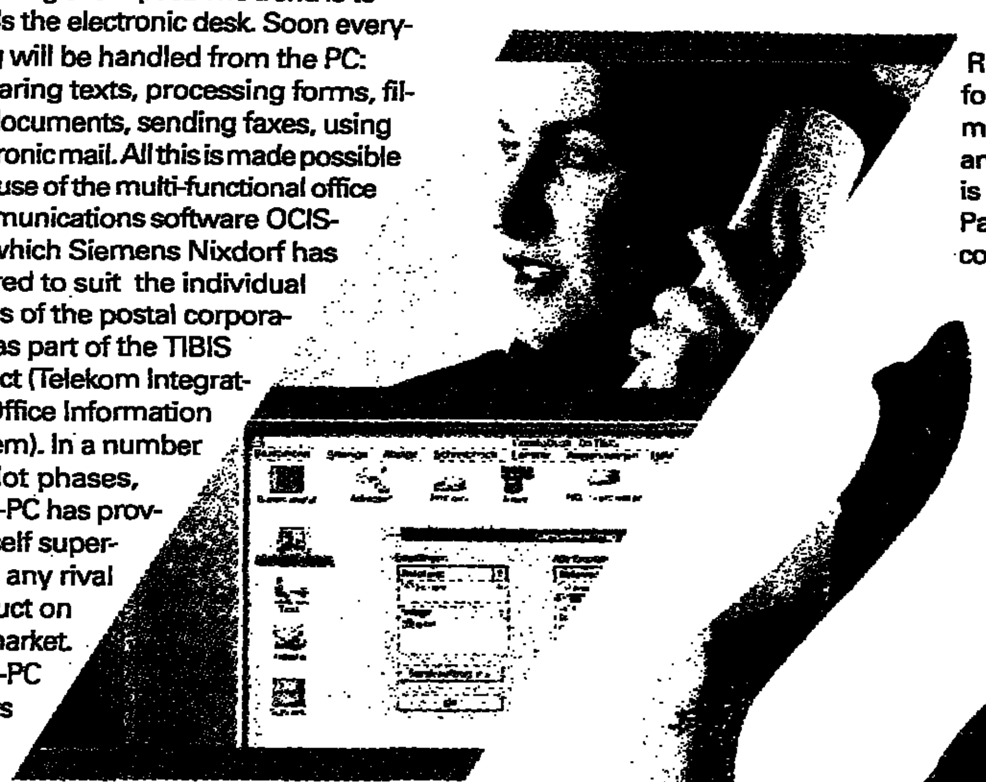
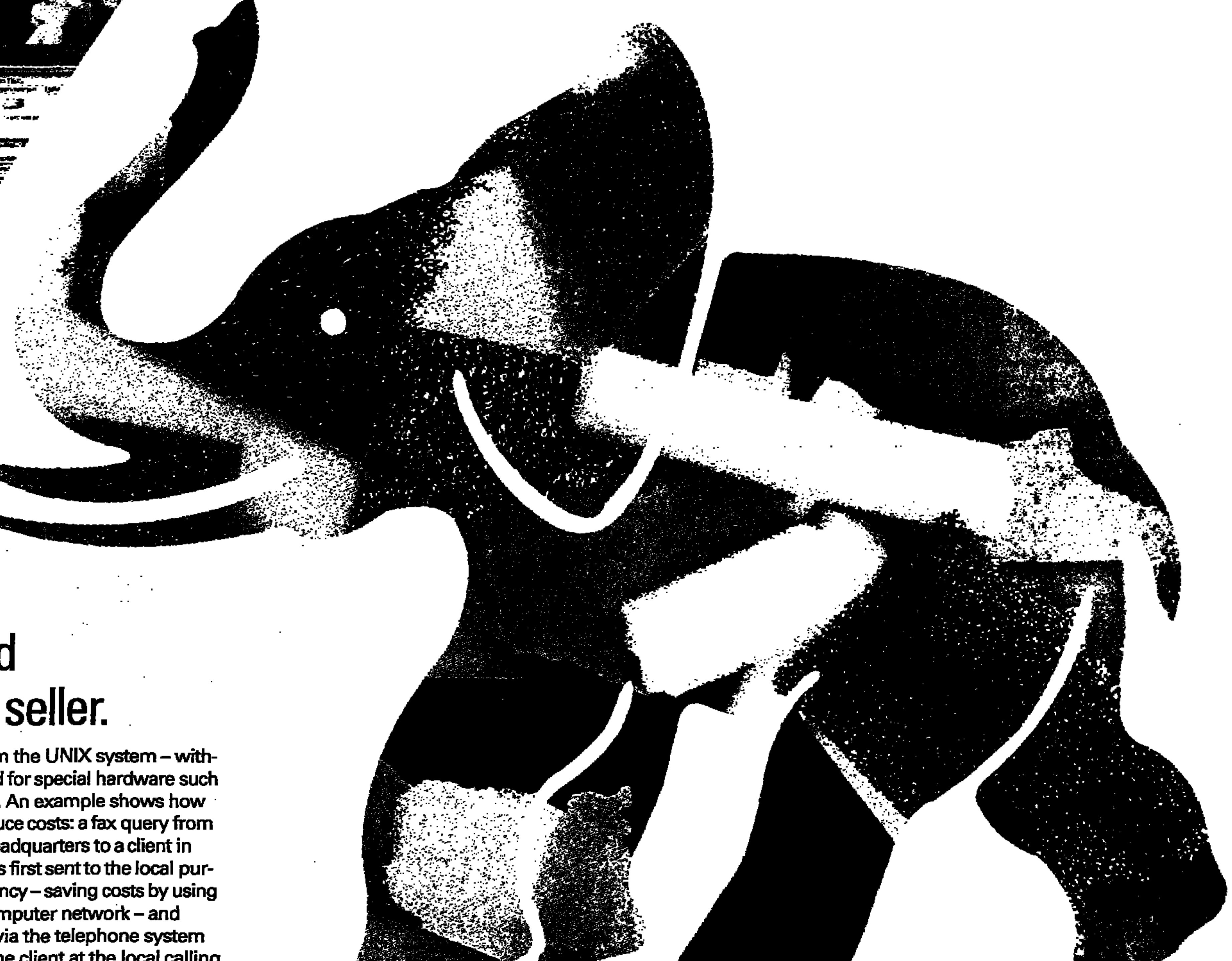
هكذا من الاصل

Basel:
No more speed
limits for payme
transactions at
the Swiss Bank
Corporation.

Bonn: Telekom now communicating with Siemens Nixdorf "OfficeWorld".

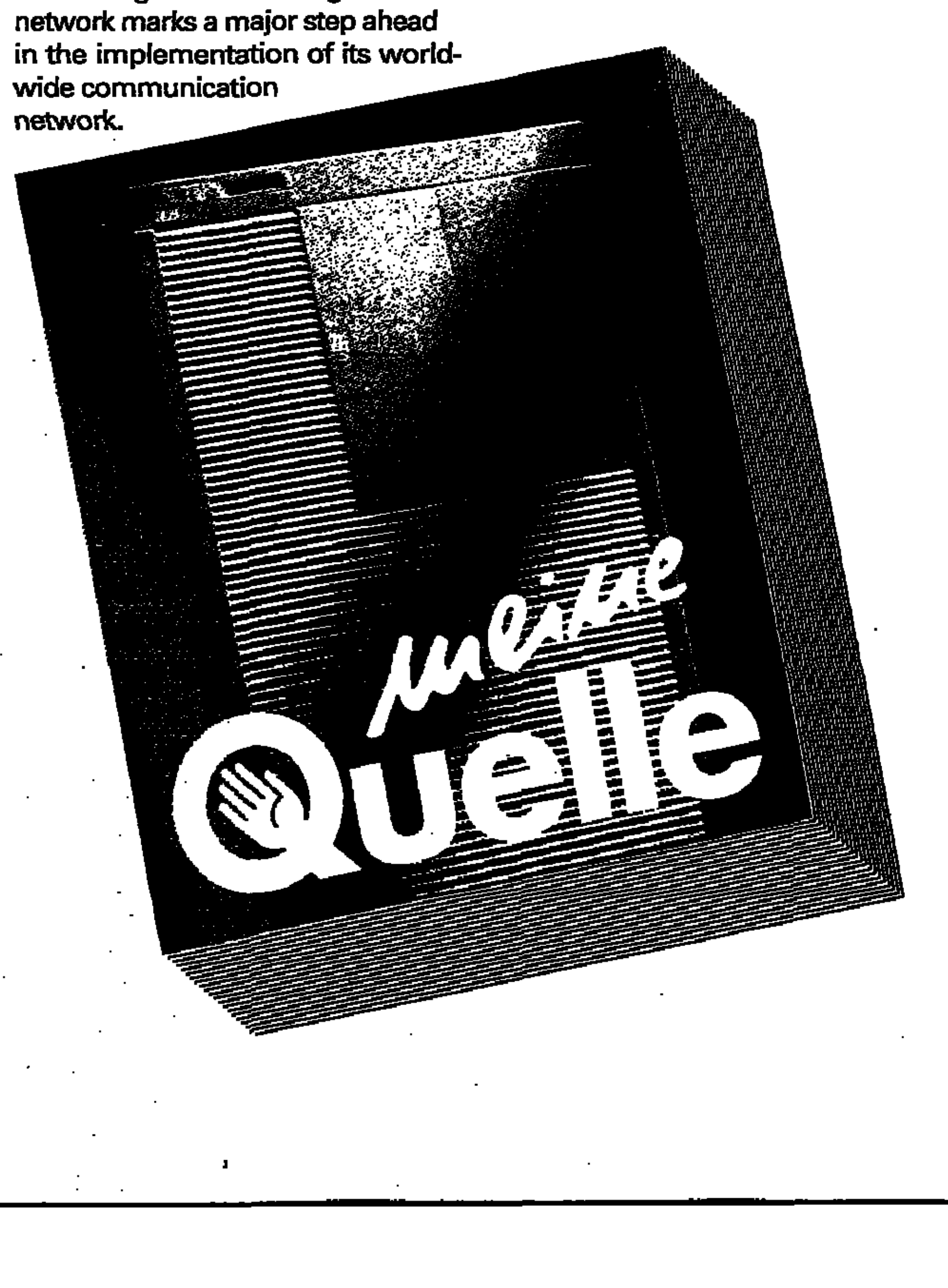
Now that Telekom has been reorganized as a private company, its office organization is also being completely restructured. Paper mountains and cumbersome card indexes will soon be a thing of the past. The trend is towards the electronic desk. Soon everything will be handled from the PC: preparing texts, processing forms, filing documents, sending faxes, using electronic mail. All this is made possible because of the multi-functional office communications software OCIS-PC, which Siemens Nixdorf has tailored to suit the individual needs of the postal corporation as part of the TIBIS project (Telekom Integrating Office Information System). In a number of pilot phases, OCIS-PC has proven itself superior to any rival product on the market. OCIS-PC allows all client PCs at the 176 Telekom sites to access the central services of currently just under 180 RM600 servers. As database and applications servers using such applications as centralized filing, electronic mail and address management, the RM systems are continuously on call for every PC. To enhance inter-departmental communication from PC to PC and from PC to RM server, Telekom is also considering introducing WorkParty, the workgroup solution for comprehensive workflow management right across the organization. Like OCIS-PC and other Telekom programs, WorkParty runs under ComfoDesk, the standard user interface. By the year 2000, more than 100,000 workstations at 176 sites are to be equipped with OCIS-PC and networked. When it has been extended with innovative applications such as computer-assisted telephone calls, and management information and workflow monitoring systems, Siemens Nixdorf's OfficeWorld solution will be not only one of the biggest but also one of the most advanced in the world.





Fürth: Quelle has ordered the European UNIX best seller.

The biggest European mail-order company has discovered the ideal source for global communication: Quelle is now doing business with the largest European computer company, with the aim of implementing MAC, the international "Merchandising and Communication" network. What's the reason behind this decision? Quelle imports approx. 45% of its 55,000-item product range from foreign countries. There are 27 purchasing agencies from Portugal to Japan, from China to Indonesia, and all of them have to be in touch with the headquarters in Fürth, communicating, consulting on decision-making and receiving instructions. The aim of MAC is to reduce communication costs through modern data transfer and to harmonize all merchandising procedures worldwide. The intention is also to create a standard management tool by integrating all purchasing agencies into a global procurement system.
To achieve this goal, the MAC network has been undergoing constant improvement and expansion since 1992 – from document processing to electronic mail transfer. All information, ranging from offers to order confirmations, can be sent to each purchasing agency. There, it is reconciled and harmonized with the main office in Fürth at the push of a button via the international infonet. Using the MAC network, Quelle can also distribute faxes directly from the UNIX system – without the need for special hardware such as fax cards. An example shows how this can reduce costs: a fax query from the Fürth headquarters to a client in Hongkong is first sent to the local purchasing agency – saving costs by using the X.25 computer network – and from there via the telephone system directly to the client at the local calling rate. For Quelle, the use of Siemens Nixdorf's global marketing and service network marks a major step ahead in the implementation of its worldwide communication network.



Memmingen: Metzeler Schaum gears up for lean management with R/3 LIVE.

Extreme pressure on costs and prices, customer orders for smaller and smaller quantities, with increasingly rigorous quality requirements in ever shorter delivery times – these are the challenges faced by Metzeler Schaum, along with many other companies. Metzeler is restructuring its operation according to the lean management principle, to make the company faster and more flexible, and to increase profitability. This inevitably demanded new EDP systems with greater flexibility as the backbone of a more efficient organizational structure. And it was Siemens Nixdorf that got the contract, to implement the R/3 LIVE concept. This was because the R/3 LIVE concept enables Metzeler to meet another of its requirements – long-term cooperation with a reliable partner. The goal at the company's plant in Memmingen, which manufactures moulded and block foam-rubber, for vehicles and furniture, for example, was to progressively replace the old system with a flexible client-server architecture and a fast network. Standard software specifically designed for medium-sized businesses was installed, meeting at least 80% of all requirements and providing easy and convenient data query facilities. EDP and specialized staff from Metzeler worked in close cooperation with Siemens Nixdorf specialists. The central priority was to redesign the company's business processes, focusing mainly on core business. The result is a powerful, flexible systems architecture consisting of a host holding all Metzeler's customer data, an RM600 computer acting as the server for the R/3 modules – accounting, stock management, sales and distribution, PPC and human resources – and Siemens Nixdorf PCs, taking office communications right into the workplace. The old system is scheduled to finally shut down at the end of 1995.

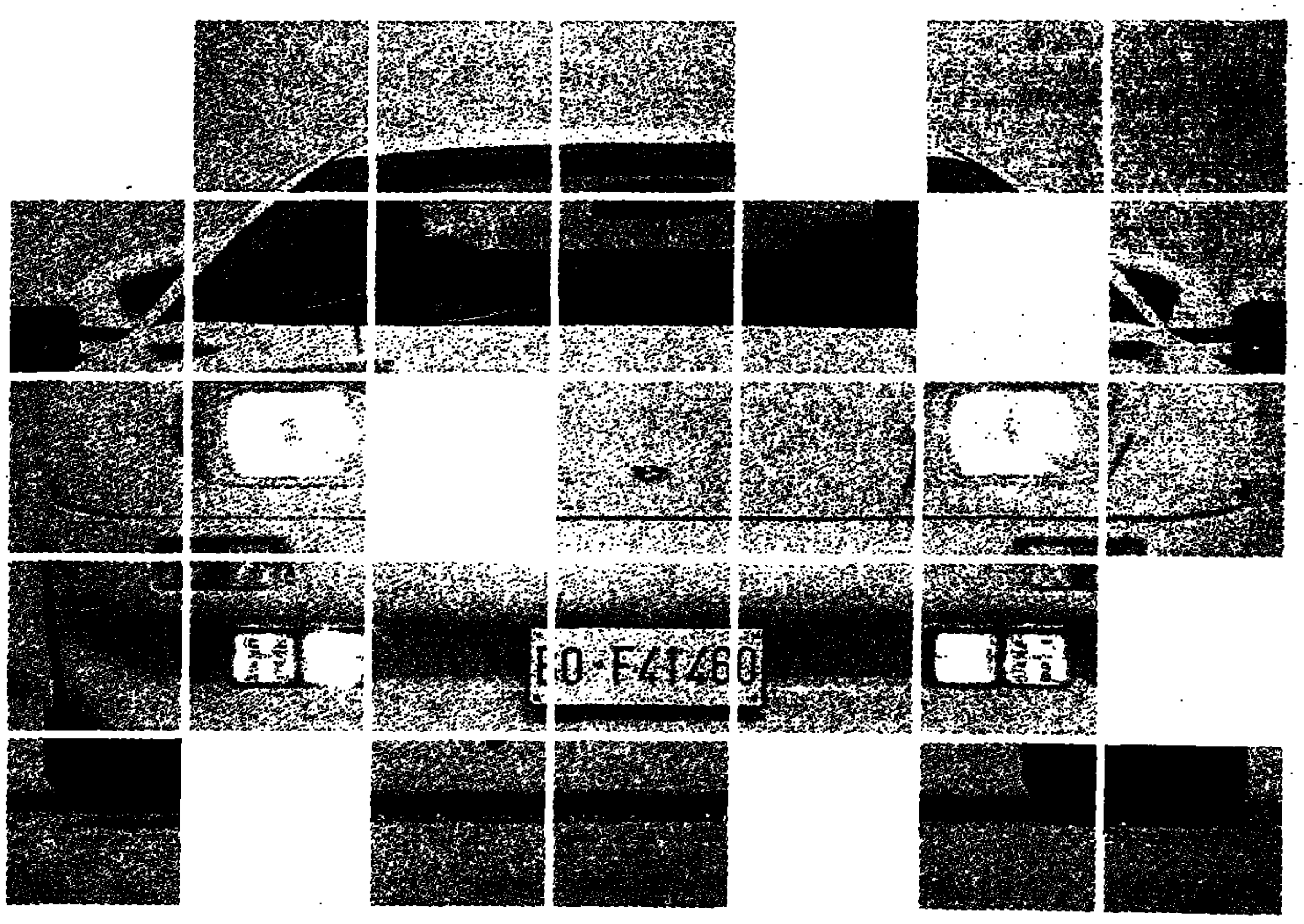
SIEMENS NIXDORF

Rotterdam: Thyssen De Reus brings COMET into the open environment.

Thyssen De Reus B.V. (Netherlands), an international company which also has factories in Germany, England and Belgium develops, produces, installs and services elevators. Besides the manufacture of elevators for personnel and special elevators, it specializes in the manufacture of elevators and stairlifts for disabled and elderly people. Thyssen De Reus has committed itself to the latest distributed information processing via client-server technology for development. Siemens Nixdorf was commissioned to make the progressive transition from the old system to the new, by porting the COMET software library to an RM600 UNIX system, complete with all modules. This was the ideal transition solution – the investment in COMET software is protected, until the final transition to the latest client-server software is completed. In the meantime, Thyssen De Reus staff can continue to work on the tried and tested COMET system they know so well. But it was never this efficient. The addition of RM power and the processing speed of the UNIX operation system means that the entire order processing operation is now considerably more efficient. The RM600 plays a very important role in the future automation network of Thyssen De Reus. To ensure the network can grow and expand, Thyssen De Reus Netherlands has complemented it with the service power and training of Siemens Nixdorf.

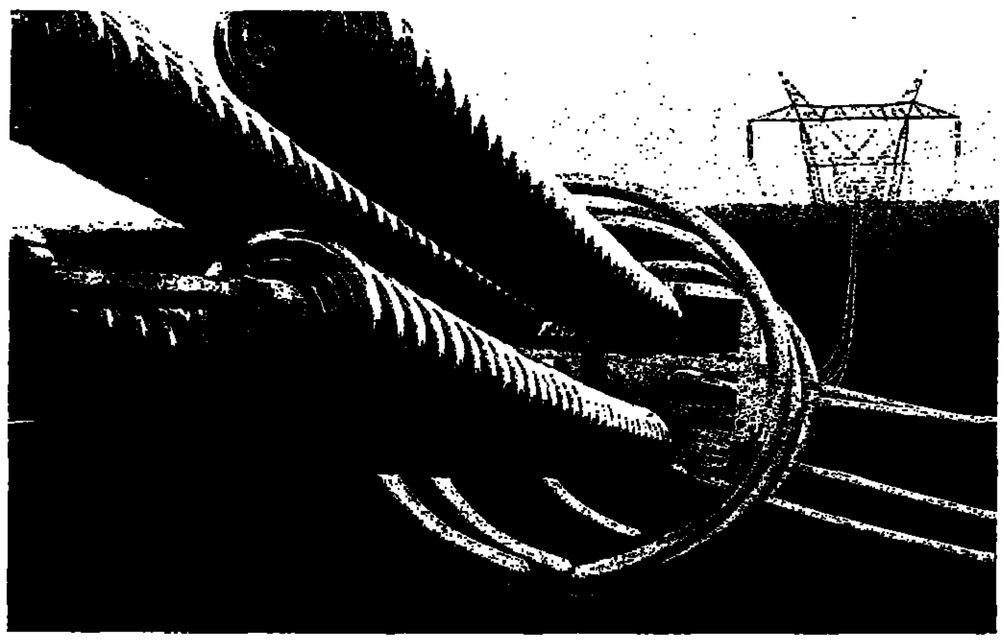
Johannesburg: Allianz uses RM power to enter the world of UNIX.

For Allianz South Africa, an alliance with Europe's No. 1 in UNIX multiuser systems was its best insurance policy for entry into the open systems environment. The insurance giant was planning to invest in new UNIX-based applications software, and was looking for the best hardware platform. It compared products from a range of manufacturers before arriving at the right solution: a multiprocessor RM600 was to replace the previous system based on proprietary computer architecture. The Siemens Nixdorf UNIX system is on the network with all the PCs. The result? A fast client-server link, connecting all Allianz departments, with all the advantages of an open and totally expandable system. From today's 250 concurrent workstations, with comprehensive file, print, application and communications services provided by the RM600, the system capacity can be increased to several thousand workstations. To do this, Allianz merely has to add memory or processor to arrive at the next RM computer category. The operating system is the base for new UNIX applications UniVerse and InsSure from software produced BCS, for all its core business. Allianz is also insured against the need for further staff training in the future, since Siemens Nixdorf has already turned Allianz employees into experts in working with open systems. And just in case a problem does arise, the Siemens Nixdorf service package also includes ongoing support, with Teleservice, for example, providing problem solutions between one computer and another. Allianz Manager Richard Roos is very happy with the way things have gone. "With RM600 and Siemens Nixdorf as our partner, our transition to the world of open systems has been extremely successful".



Bocholt: BEW exploits new sources of energy – from R/3 LIVE to SICAD.

Siemens Nixdorf is putting energy into a completely new IT organization for BEW; the Bocholt power and water supply company – a project which must be completed by 1998. With 70,000 subscribers, BEW is the largest energy supplier in West Münsterland in terms of hardware and software. The solution consists of a range of software packages, such as R/3 LIVE, the complete business management solution custom-made by Siemens Nixdorf for the power industry's specific requirements – from order entry to accounting. In addition, SICAD and



(Germany). A BS2000-client for many years, BEW now plans to install state-of-the-art standard applications and move over to an open client-server architecture. This is a very ambitious project requiring all the expertise of Siemens Nixdorf as a system integrator and developer of sector-specific applications for the power industry. The challenge is to combine RISC multiuser systems, workstations and PCs into a sophisticated client-server environment for distributed processing, SINCAL, Siemens Nixdorf's software applications for the power industry, support BEW with sewer documentation, calculations, analysis and planning functions for networks. 1997 will mark the arrival of the OCIS office solution, turning workstations into electronic desks, and the ARCIS archive system, which can reduce mountains of files to CD format. Once the project is completed in 1998, BEW will have in place its IT organization for the 21st century.

Vienna: Magna, component supplier for the car industry, gives the green light for RM investments.

The Canadian car parts supplier Magna gives priority to new RM computers: five RM600 UNIX systems are to replace Quattro computers for COMET data processing. One computer has been installed at each of the European Magna branches in Weiz in Austria, Heiligenstadt, Prague, and two at the Salzgitter branch. Together with 120 PCs and 40 terminals, they act as a boost to the COMET client-server-operation, from financial accounting and wages and salaries, to time management. Also integrated in the solution is special trade software with the FORS supplier package for all tasks from order entry to statistics – with data communication links to the automotive industry available for order processing. Thanks to CROSS BASIC, Magna can continue to rely on COMET. CROSS BASIC is the migration tool that facilitates the seamless transfer of the business software library from legacy to open systems – without interruptions, restrictions or waiting-time for the user. At the same time, productivity is increased by as much as 20%, thanks to the latest UNIX computer technology. Today, for the largest independent supplier to the car industry, it's business as usual with COMET. And without a hitch. But thanks to RM, the operation is faster and more efficient, with unlimited power and connectivity.

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FINANCIAL TIMES SURVEY

Charities Investment and Finance

Thursday December 15 1994

As smaller charities follow large ones in seeking professional financial advice, all wonder how much they may lose as a result of the National Lottery

Sector seeks new sources of income

One of the less noticed accompaniments to the frenzy leading up to last month's launch of the National Lottery was a complaint to the Advertising Standards Authority by the Institute of Charity Fundraising Managers.

The institute objected to the extent to which advertisements promoting the lottery had linked the purchase of tickets with notions of doing charitable good. "Every time you play the National Lottery, someone else gets a better chance," they read.

Charity fundraisers fear that the public, induced by the possibility, however remote, of winning a fortune, will buy lottery tickets in preference to alternative forms of charitable support. Yet when prizes, tax, profits and allocations to other causes are accounted for, charities will receive only 5.6p for every £1 lottery ticket purchased.

Survey by Alan Pike

With contributions by Bethan Hutton and Norma Cohen

Even so, the sums raised for charity will be substantial – an estimated £100m in the first year, perhaps rising eventually to three times this level. Unfortunately, however, estimates of possible losses commissioned by the voluntary sector point to broadly similar figures of between £190m and £270m a year.

Finance directors of charities will be watching anxiously for signs of the lottery reducing their income. Even if fears about its impact prove to have been exaggerated, however, it is clear that the lottery will be no substitute for charities pursuing sound, efficient investment management and fundraising policies.

The stimulus of recent changes in charity law, as well as pressure for the best possible return on investments, is encouraging a growing number of smaller charities to join big ones in seeking professional investment advice.

Although small by pension-fund standards, the charities sector is a well established specialist activity for fund managers. A number of the biggest operators have several decades' experience of handling charity assets, and in some cases now have approaching £2bn of charity funds under management. Most have teams of charity specialists, and often offer facilities such as telephone helplines, which can make investment issues less intimidating for inexperienced trustees.

Charities can, depending on the size of their investments, choose between common investment funds or individual portfolio management. Big London investment managers are likely to seek minimum investments of £1m-£2m to justify individual management, but are willing to accept charity accounts as small as £1,000 for common investment funds.

About £2bn is currently held in common investment funds, and this form of investment is being stimulated by a phased process under which the official custodian, a public official, is returning to smaller charities money that had been held on their behalf.

Fund managers remain concerned about the restrictive impact of the 1961 Trustee Investments Act, under which charities must maintain a 50-50 split between wider-range investments in equities and narrower-range gilts. Earlier this year, the government introduced some changes, largely to extend opportunities for investment in Europe, but it did not relax the 50-50 requirement.

Ministers have rejected a call from a government-appointed task force on charity deregulation to abolish the requirement. The Treasury is, however, currently reviewing the position. As an alternative to scrapping the 50-50 rule, the task force proposed a revised division, enabling charities to invest up to 90 per cent of their funds in the wider-range category. This is supported by Mr Martyn Bensley, head of the charities division at Fleming Investment Management.

"The government could change the 50-50 division quickly by Order in Council, and should do so," he says. "There are other questions, like definitions of appropriate investments, that could then be considered over a longer period. If a charity had invested £2m on a 50-50 split when the act was introduced in 1961, its wider-range £1m would have been worth £15m in absolute terms by the end of last year, and its narrower range £706,000. In real terms, the wider range would be worth £1.4m and the narrower £65,000. That seems to make the case for a 90 per cent split in favour of the wider range."

Mr Bensley and some of his fellow fund managers would like the Charity Commission, still largely occupied with matters of charity law and accounting, to give more attention to investment issues. He has proposed the establishment of a panel of practitioners to advise the commission on investment questions.

Questions about charity investment lock into a wider debate about the financing of Britain's voluntary sector and, more broadly, its future. Financial support from individual and corporate donors has remained generally flat for several years. Public funding, on which somecharities rely for much of their income, is tight, and the future holds fresh uncertainties. The Scottish Office, for example, has turned down proposals that new councils be required to retain existing levels of voluntary-sector funding when local government in Scotland is reorganised.

Last month's Budget brought no relief on the issue of unrecoverable VAT paid by charities, although Mr Mike Fountain, partner in charge of VAT at Coopers & Lybrand, chartered accountants, says that, because charities face a more complex VAT regime than the average business, some pay the tax unnecessarily on items such as building purchases, rent, equipment for research and advertising.

Given the difficulties, therefore, in stimulating big increases in traditional sources of income, the voluntary sector is beginning to look to alternatives.

A local investment fund was launched last week by Business in the Community with £2m from the private sector, including £500,000 from National Westminster Bank, and a £1m grant from the Department of the Environment. The fund will provide loans of between £25,000 and £250,000 to launch community enterprises, helping voluntary organisations to overcome their frequent difficulties in raising loans on the conventional financial markets. Elaborations of this idea, including a fully fledged charity bank, are emerging from work on the future of charities being undertaken by Demos, the think-tank.

Demos's work is part of a flurry of examination about to burst upon charities. The National Council for Voluntary Organisations is setting up a Commission on the Voluntary Sector, to stimulate thinking about future priorities. The Central Statistical Office has commissioned a survey of the sector's sources of funding, expenditure and assets. A study of the financial governance of charities is about to begin, financed by the Charities Aid Foundation, the Chartered Institute of Management Accountants and the Institute of Chartered Accountants in England and Wales.

So, during the next two years, there will at least be a flow of new source material to fuel the debate about the future of the voluntary sector. It is a debate about absolute fundamentals. Changes in welfare service provision and government funding may be pushing some big charities to the point where they will look more like NHS trust hospitals, local-authority social services departments or private-sector residential care companies than the conventional public image of voluntary organisations.

If this happens, it will leave a growing amount of traditional, campaigning charitable slack to be taken up at local level. But small, local voluntary organisations tend to face greater financial problems than their bigger counterparts, particularly when it comes to meeting core costs - donors prefer supporting specific programmes to paying electricity bills. As a result, staff of under-resourced smaller organisations often spend as much time fundraising in order to survive as on providing services.

Charity's share of the National Lottery proceeds might be better spent on tackling the sector's infrastructure problems - for example, by financing top-quality management and staff training which would be available to the sector as a whole - rather than simply generating another lottery among 700,000 voluntary organisations that will be scrambling for a share of the prize.

ALSO IN THIS 4-PAGE SURVEY

Investment management: **Bethan Hutton** on routes to market exposure

Capital growth matters, too

Finding the right home for one's money is a difficult enough process for the average individual, but it is doubly nerve-racking for charity trustees who are responsible for the proper management of other people's money.

Putting it safely on deposit at the bank may rest easiest on a trustee's mind, but more charities are realising that in fact investments further along the risk scale can be the most responsible choice, to provide some capital growth as well as income.

Once a decision has been made that at least some of a charity's funds need to be invested in stocks and shares, the next choice is between collective funds, such as unit trusts or specialised common investment funds (Cifs) for charities, and segregated management, where fund managers construct an individual portfolio of investments to meet a charity's specific needs.

The choice may be dictated by the size of funds available. A charity with less than £50,000 will not be able to afford the personal touch of segregated management, while large national charities with £10m or more to their names will be welcomed by any segregated fund manager. Between those extremes, either option may be possible, if you research the market thoroughly.

The big-name London managers tend to steer any charity with less than £2m towards collective investment vehicles, as their fee levels make segregated management of smaller amounts uneconomic. But charities with more modest funds to look after do have an alternative.

Some of the medium-sized stockbrokers and fund managers, particularly outside London, accept much smaller funds for segregated management at fees comparable with the charges on collective funds. This may be an appropriate choice if a charity has specific investment needs, such as ethical constraints or perhaps a temporary need for higher-than-usual income from its assets.

Manchester-based stockbroker Henry Cooke, Lumsden, for example, offers charities a full individual portfolio management service with no minimum investment amount, though the minimum fee of £1,500 a year would deter any fund with less than about £100,000. The standard annual charge is an all-inclusive 0.7 per cent.

Most managers still use collective funds for part of the portfolio – for example, to provide overseas exposure, as direct investment would be too expensive with small amounts – but the UK portfolio will usually consist of direct shareholdings.

If collective funds seem like a more appropriate solution, then charities can choose from a wide range of unit trusts, or a smaller number of common investment funds designed specifically for charities.

According to the WM Company, which produces comparative performance statistics for charity funds, there are currently only nine equity-based common investment funds and nine fixed-interest funds on the market. Those not shown in the table are funds launched within the past year by Foreign & Colonial and Kleinwort Benson, which do not yet have a long enough performance record to be included.

There is a wide range of unit trusts, and a smaller number of common investment funds designed specifically for charities

Shona McLeod, of WM Company, says more management groups would have launched common investment funds by now, if it were not for the considerable bureaucratic obstacles which have to be overcome to set up a fund. But demand for Cifs is growing fast, so managers who can offer them are attracting steady streams of new money.

One important factor in the growing demand for Cifs is the steady process of divestment being carried out by the official custodian for charities. Small charities whose assets were managed by the official custodian are gradually having their money returned to them, and are having to find other homes for it. Most have only modest sums to deal with, so the most obvious choice is a Cif, particularly if they are constrained by the Trustee Investment Act.

The choice of manager – whether you opt for the collective or segregated route – is wide, from the famous City names to smaller regional or specialist firms. Even among managers of similar size and reputation, there can be considerable differences in investment approach and charging structures. So how should a charity go about finding the right manager for its particular needs?

Michael Rimmer, of Schroders, says: "Historically, a lot of introductions have been effected by word of mouth. The charity world is still comparatively small and self-contained – trustees talk to one another." This is particularly the case with medium-sized and smaller charities.

However, a word-of-mouth recommendation does not necessarily hand the fund manager a new client on a plate. More often, it speeds the manager into a short list, from which the final selection is made on more objective grounds of cost, performance and so on.

But there are signs that the informality of that process may be changing. Increasingly, charities – particularly the larger ones – are turning to independent consultants for advice on choosing an investment manager.

Some people in the industry see the charity fund management business following the example of pension funds over the past few years. Consultants have become central to the pension fund manager selection process, and an emphasis on performance statistics has concentrated a very high percentage of funds in the hands of a very small number of managers.

The charity sector is more diverse, with more very small organisations, than the pension sector, so concentration of funds is unlikely to go quite so far; but trustees' growing awareness of their responsibilities is creating a trend in that direction.

Common investment fund performance, as at October 31, 1994

Income units

Fund name	Investment manager	Last 5 years % pa	Last 3 years % pa	Last 2 years % pa	Last 12 months % pa	Last 6 months %	Current yield % as at 31/10/94	Fund size at 31/10/94 £m	Inception date
EQUITY-BASED FUNDS									
CAF Balanced Growth Fund	Cazenove	7.9	7.7	8.9	-6.6	-5.0	4.2	85.1	Oct 89
*Charifund	M&G	3.7	6.7	13.6	-8.4	-4.7	5.8	493.0	Mar 65
Charishare	Mercury	6.2	6.3	9.7	-2.8	-3.9	3.8	177.5	Dec 86
Charity Equity Fund	Schroders	-	-	11.7	-5.1	-5.4	3.6	44.8	Mar 92
COIF Income	CCLA	5.3	6.5	8.4	-4.4	-2.4	4.7	522.9	Jun 63
†Fledgeling UK Equity Fund	Flemings	-	-	7.0	-5.5	-6.9	3.5	13.4	Jul 92
UK Growth & Income Fund	Barings	-	-	6.8	-7.3	-7.4	3.2	38.7	Oct 92
GILT & FIXED-INTEREST FUNDS									
CAF Income Fund	Cazenove	2.8	1.1	-2.4	-15.2	-8.0	6.8	40.7	Oct 89
Charibond	M&G	1.1	-0.1	-3.2	-13.0	-5.6	9.2	53.2	Sep 78
Charinco	Mercury	-0.4	-1.1	-4.0	-14.0	-5.8	7.8	176.3	Dec 75
Charity Fixed Interest Fund	Schroders	-	-	-2.6	-12.0	-5.2	8.5	15.5	Jun 92
COIF Charities Fixed Interest Shares	CCLA	-	1.2	-1.8	-11.7	-5.2	9.7	37.5	Apr 90
Fledgeling Bond Fund	Flemings	-	-	-3.6	-12.8	-6.7	8.2	5.2	Jul 92
Income Plus Fund	Barings	-	-	-2.0	-12.0	-6.5	7.4	13.9	Oct 92

Capital-only returns (excluding income). Long-term returns are expressed as return per annum.

Accumulation units

Fund name	Investment manager	Last 5 years % pa	Last 3 years % pa	Last 2 years % pa	Last 12 months % pa	Last 6 months %	Current yield % as at 31/10/94	Fund size at 31/10/94 £m	Inception date
EQUITY-BASED FUNDS									
*Charifund	M&G	11.6	14.2	20.7	-1.4	-2.0	5.6	493.0	Mar 89
Charishare	Mercury	11.0	11.0	14.3	1.0	-2.5	3.8	177.5	Dec 86
Charity Equity Fund	Schroders	-	-	15.8	-1.4	-3.8	3.6	44.8	Mar 92
COIF Accumulation	CCLA	10.3	11.9	14.5	-0.1	-0.1	4.1	522.9	Jan 64
FT-SE-A All-Share Index		12.3	12.1	15.1	2.0	-0.8			
GILT & FIXED-INTEREST FUNDS									
Charibond	M&G	11.6	10.3	6.5	-4.3	-0.9	9.2	53.2	Sep 78
Charinco	Mercury	9.8	8.8	5.1	-6.0	-1.5	7.8	176.3	Dec 75
Charity Fixed Interest Fund	Schroders	-	-	-	-4.4	-1.1	8.5	5.5	Dec 92
COIF Charities Fixed Interest Shares	CCLA	-	11.1	7.7	-3.5	-0.5	9.7	37.5	Apr 90
British Government All Stocks		11.4	10.2	6.4	-2.5	-0.3			

Total returns (excluding income). Long-term returns are expressed as return per annum.

All prices are based on offer to bid prices. Yields are gross of expenses. *This fund is not a common investment fund but an exempt unit trust. †This fund invests in UK equities only

Source: The WM Company

Norma Cohen discusses the changes to the Trustee Investments Act

'Distorted' returns criticised

The Trustee Investments Act of 1961 was, by all accounts, drafted with the best of intentions.

Trustees of charities were to ensure that donations were invested prudently, and that scarce assets were not wasted on high-risk ventures, or used to line the pockets of those who managed the money.

But now, charitable organisations say, recent modifications to the act simply do not go far enough. The act is having the unfortunate effect of pushing charitable investment into relatively lower yielding securities, depriving them of badly needed investment returns at a time of shrinking donations.

Moreover, it encourages certain distortions in investment which a "prudent man" would never choose of his own accord.

As a result, there is growing pressure from charities and those who invest on their behalf to alter the Trustee Investments Act so that funds may be managed in a more sensible fashion.

In 1961, the terms of the act called for those who managed charity assets to place 50 per cent of funds into "narrow" investments and the remainder into "wider assets". Narrow assets meant government stocks and cash, while wider assets meant certain UK equities. One criterion for equity investment specified that charities could only buy shares which had paid dividends for at least the five previous years.

Mr Martyn Bensley, head of Fleming Investment Management's charity division, notes that the criteria have served charities badly. A £2m sum invested in 1961 would have earned £14m on the equities portion and just £700,000 on the 50 per cent of assets invested narrowly, by the end of last year.

In 1992, amendments to the Charities Act brought some improvements. The category of narrower investments was broadened to include government bonds of European Union member states and unit trusts which invest in gilts.

Meanwhile, the category of wider investments was broadened to include the shares of companies based in the EU. Investment in companies outside the EU can only be made through recognised unit trusts.

Mr Bensley points out that even this broadening of definitions distorts investment. "As a charity, you still cannot invest directly in shares of the US or of Japan, although you can invest directly into Greece or Iceland." He describes the effect of the rules as "crackers, just crackers."

However, changes to the act's section 24 authorised the creation of common investment funds (Cifs) and common deposit funds (CDFs), and these allowed professional investment managers to skirt some of the Act's more restrictive aspects.

Apart from the rules creating these categories of pooled fund, other amendments to the act place greater emphasis on the fiduciary duties of trustees and make them personally liable for carrying out those duties. The effect of these legislative changes has been to create a surge in pooled funds offered to charities by leading UK fund management companies.

For example, concern about trustees' duties under the act prompted Buzzacott Investment Management, a firm of chartered accountants which also manages funds for charities, to turn over £60m of client funds to Mercury Asset Management for investment through its pooled funds. The 1992 amendments also bar those who audit charity funds from managing them as well.

However, the act is anomalous in that regulation of these pools falls to the Charities Commission, a body which may be well aware of the needs of charities but knows relatively little of the complexities of investment. For example, it recently dithered for seven months over whether it would be proper for the UK's largest charity, the Wellcome Trust, to invest in venture capital through limited partnerships.

Investment in partnerships could have been deemed to constitute trading, an activity from which charities are banned, the commission feared.

Investment professionals note that self-regulatory bodies in the financial services industry are probably better placed than the Charities Commission to consider issues of this sort.

Thus, alterations in the regulation of pooled funds is one of the goals of a charities and voluntary organisations task force. "The burden of regulation as it currently stands can, for smaller organisations, be so onerous and costly that it threatens to stifle the enthusiasm of volunteers and sometimes even the existence of the organisations themselves," according to a Flemings' update on the charity investment regulations.

Instead of the Charities Commission, one of the self-regulatory bodies for the financial services industry should be charged with overseeing the regulation of pooled funds, it is being argued.

The task force, whose members include representatives of the Home Office and the Treasury, as well as charitable organisations and fund managers, produced a report earlier this year setting out 189 proposed changes to the regulation of charities. It is understood that the Treasury is considering the case for reform, although no legislation is considered likely for at least two years.

In particular, the group is seeking deregulation of investment powers. Currently, charity trustees cannot lawfully designate the management of their investments to a professional manager or appoint a nominee company unless their own trust deed specifically permits them to do so.

Also, as far as the scope for investment discretion is concerned, the task force had recommended that the concept of "wider" and "narrower" investments be scrapped altogether. Privately, this suggestion has been rejected by government ministers, but the group is still urging that the category for wider investments be broadened to cover 90 per cent of the funds under management.

The task force is also urging that the choice of permitted investments should be considerably broadened.

Will competition with the private sector lead to less public funding?

Businesslike but not a business

The Women's Royal Voluntary Service this week became the first voluntary organisation to win the prestigious national category of the National Training Awards.

Announcing its success, the charity said that it had "beaten off stiff competition from the commercial sector" to gain the award. Competition from the commercial sector was also part of the stimulus for the WRVS's investment in training – voluntary organisations and private companies are both seeking to take over welfare services under contract to public authorities, and this is forcing charities to examine the quality and efficiency of their services.

The WRVS is Britain's largest voluntary organisation. With 140,000 volunteers – one in 200 of the adult population – it is bigger than the Army. Its volunteers, who, in spite of the charity's name, include men, are familiar figures running hospital shops, delivering meals on wheels and assisting at emergencies. The financial environment in which such voluntary activity takes place, however, has changed dramatically during the 1990s.

Managers of National Health Service trust hospitals, under pressure to generate extra money from non-medical activities, today view hospital shops as potential sources of income. In some big hospitals, this has led to commercial retailers or facilities management companies taking over shop activities that were once left to volunteers. Last year's community care reforms, designed to shift funding from residential care to support in people's own homes, are turning meals on wheels and home help services into more businesslike activities which, in some areas, are attracting the interest of the private sector.

In the face of this more competitive market, the WRVS is restructuring and modernising under Mr Gerry Burton, a chartered accountant brought in as the charity's first full-time chief executive. He inherited an organisation which, among a series of other activities, runs 1,100 shops in 800 hospitals and delivers 15m meals on wheels a year.

"Our hospital shops turn over £21m, and we donate £3m a year back to the hospitals," he says. "But in the current climate of income generation, hospital managers are asking if a better return on shops is possible, so we are responding positively by improving shop design and product mix."

It is a similar story with meals on wheels. Some local authorities have entered into contracts with frozen food companies to deliver meals on a weekly, rather than daily, basis. Mr Burton has reacted by moving the WRVS and its bulk-buying power into the frozen food market – it won the National Training Award for a food hygiene training course for 66,000 volunteers. But, the WRVS says, it can offer a more humane service than commercial competitors by arranging for its volunteers to maintain contact with housebound people between weekly food deliveries.

Mr Burton says he is not afraid of commercial competition. "We do not have the big wage bills of commercial organisations, we are not taxed on profits and we do not need to pay dividends. So, provided we are well organised, we should be able to withstand competition."

WRVS volunteers discuss plans to refurbish their hospital shop

But the success of the voluntary sector in winning and keeping public contracts depends on a further, more imponderable, question – will volunteers continue to give time to charities that are in businesslike competition with the private sector to provide publicly financed services?

Mr Burton believes they will. "Being efficient is not the same as being commercial. Our volunteers are concerned to ensure that they are able to offer the proper quality of caring service that people require. We are improving our training facilities to make the work of volunteers increasingly valuable and satisfying."

Another important question is whether charities, with their tradition of voluntary effort, will be adequately rewarded under public sector contracts. Warnings from a number of local authorities last month, that their community care budgets had run low only two-thirds of the way through the financial year, have revived charity managers' concerns in this area.

A survey by the National Council for Voluntary Organisations last month showed that charities received £672m in local authority grants and fees in 1993-94, an increase of £84m on the previous year. The growth reflects the effects of increased contracting with the voluntary sector as a result of last year's community care reforms.

The NCVO says, however, that, *in spite of the additional* £84m, charities are still subsidising community care services; and that the 1993-94 increase in spending on care services was accompanied by a £7m reduction in local authority funding for the voluntary sector in other sectors such as education.

Charity managers are particularly worried by suggestions in the survey that some councils might expect them to subsidise community care services, although local authority leaders deny that there is any concerted policy of trying to do this. A total of 38 per cent of councils taking part said the willingness of voluntary organisations to subsidise contract prices with income from other sources, such as donations, would be a very important factor in encouraging them to use charities rather than private-sector providers; a further 42 per cent regarded it as fairly important.

CHARITIES INVESTMENT AND FINANCE III

Voluntary income: the top 20 charities

	Year end	Covenants + Gift Aid £000	Legacies £000	Charity shop income £000	Other donations £000	Fund raising income £000	Total voluntary income £000
National Trust	2/94	31,072	25,227	0	18,665	3,781	78,745
Oxfam	4/93	14,304	4,405	18,472	21,791	0	58,972
Royal National Lifeboat Institution	12/93	2,167	40,039	0	4,802	9,221	56,229
Save the Children Fund	3/93	0	7,414	2,041	44,411	0	53,866
Imperial Cancer Research Fund	9/93	0	34,471	6,542	3,226	4,156	48,395
Cancer Research Campaign	12/93	0	32,070	2,491	10,791	0	45,352
Barnardos	3/93	0	19,306	1,501	15,645	0	36,452
Help the Aged	4/93	1,270	5,129	775	25,967	0	33,141
Salvation Army	3/93	0	16,995	0	15,308	0	32,303
NSPCC	9/93	0	6,780	0	14,551	9,487	30,818
RSPCA	12/93	0	19,933	0	3,179	5,191	28,303
Christian Aid	3/93	3,689	3,182	0	21,225	0	28,096
Cancer Relieve Macmillan Fund	12/93	1,839	7,963	94	15,119	2,589	27,604
British Heart Foundation	3/93	387	16,519	1,377	3,205	6,031	27,519
British Red Cross Society	12/93	1,471	6,621	2,141	14,624	2,033	26,890
Royal National Institute for the Blind	3/93	0	18,349	0	7,360	0	25,709
Guide Dogs for the Blind Association	12/93	353	20,187	0	2,189	2,903	25,632
Institute of Cancer Research	7/93	0	3,917	0	18,401	0	22,318
Spastics Society	4/93	993	4,585	4,856	10,522	1,250	22,186
Marie Curie Cancer Care	3/93	923	9,543	-207	11,893	0	22,152

Source: Charities Aid Foundation

In a competitive fundraising market, no one is secure

Income from legacies falls

The Imperial Cancer Research Fund, one of the most familiar household-name charities, announced in September that it was cutting back on research and jobs because of a fall in income.

It came as a powerful warning that, although big charities are tending to fare better than smaller ones, in a highly competitive fundraising market no one is secure.

The fund – one of the 10 biggest fundraising charities – will have to operate in 1995-96 on a spending limit of about £54m, which is £6.5m less than it had planned. A decline in legacy income made a significant contribution to the problem. The charity relies on legacies for 71 per cent of its voluntary income, and income from this source has fallen by nearly £2m this year.

Legacies have, as Sir Walter Bodmer, the fund's director general, pointed out when announcing the cuts, become a more competitive area of charity fund raising than in the past. They form an immensely important element of total income for those charities that are good at attracting them. Fundratios, a study of 20 leading charities completed last month by the Centre for Interfirm Comparison, shows that legacies typically produce nearly 40 per cent of big charities' voluntary income. This compares with only 3.7 per cent raised from house to house collections.

The study also shows, however, that the value of typical legacies has been in decline since 1992. So, according to the report, have corporate donations and response rates to cold direct mailings – the latter down to its lowest level in four years at 1.1 per cent.

The research, carried out for the Institute of Charity Fundraising Managers, contains some better news as well – income raised by local support groups is rising, charities are getting better at recovering tax on covenants, and charity shops are performing well. But the overall picture is one of a difficult time for charity fundraisers.

According to the survey, the 20 big charities covered, with a combined annual income of more than £600m, achieved an overall growth in voluntary income of 5 per cent last year – little more than half 1992's 9 per cent rise.

In the late 1980s and early 1990s, charities and the government waited for an explosion in charitable giving that never happened. Innovations like Give As You Earn and Gift Aid were established to promote tax-efficient giving; ministers urged the public to recognise the importance of charity by becoming more regular and generous donors. While some individual causes have been outstandingly successful, giving in general has failed to expand in line with a growing demand for the services of charities.

Mr Michael Brophy, executive director of the Charities Aid Foundation, says that, in spite of tax incentives, the proportion of the population that supports charity in a planned, systematic way has remained stuck at around 10 per cent for the past six or seven years. Donors are, he says, giving no more in real terms now than at any time over the past five years. Yet if the public wanted low taxes and less state provision, they needed to contribute to voluntary organisations and charities "by a decimal point more than they presently do."

The CAF – which assists charities with their investments and fund management – this autumn made its own contribution to stimulating giving with the launch of CharityCard, a debit card which enables users to take advantage of tax-efficient means of making donations.

Faced with the evidence of recent years that individual giving is not going to suddenly multiply, however, the CAF is also exploring fresh ideas for raising finance for charity. These include the possibility of attracting investment in charitable organisations from mainstream financial institutions and, perhaps, the eventual creation of a charity bank. There is a need, says Mr Brophy, for investments "under banking rules" to be made in the not-for-profit sector for use as capital, bridging funds, mortgage funds or venture capital.

As well as trying to stimulate individual support for charity, the government has encouraged business to become more active. This has proved largely successful, with corporate community involvement developing into a mainstream and planned business activity.

It has not, however, become an extensive new income stream for charities. Corporate donations are tiny compared with other sources of funding, since many companies regard advice, expertise and staff time, rather than money, as their most valuable and appropriate contribution.

A report on corporate giving, produced this month by Ashridge management college for the charity Action Research, suggests that, like individuals, companies often fail to support charity in the most tax-efficient manner – use of company trust funds was the least popular method of corporate giving.

The survey found that, while national charities were popular with very large companies, small businesses were twice as likely to support local causes as national ones. Medical and health charities were particularly popular with large companies – 95 per cent of businesses with more than 10,000 employees had supported such causes. Other popular areas for corporate support were children and youth, and charities active in the disabilities field.

According to the survey, businesses employing fewer than 200 people gave an average of £2,351 to charity in 1992, while the average value of gifts in kind was £1,736.

Nearly half the companies responding to the survey – 46 per cent – said charities needed to be more businesslike to gain greater corporate support, while only 17 per cent disagreed with the statement. The importance of charities having good communications was stressed by company representatives interviewed for the survey, although the report warns that some business decision makers are "likely to be put off by over elaborate presentations".

Appreciation of a good personal touch also emerged from the study. When faced with competing causes, says the report, some company decision-makers are likely to say: "We will support this charity, because I get on well with their fund raiser."

Phone collectors receive a code

About 1.4m telephone calls were made by a group of 65 charities last year, as part of their fundraising efforts.

Attempts by charities to solicit pledges of money over the telephone represent one of the fastest growing areas of fundraising. But it can expose potential donors to the risk of high-pressure techniques and other abuse, and the Institute of Charity Fundraising Managers last month issued strong guidelines on its conduct.

The 1.4m calls by the 65 charities included in a survey by the institute raised £10.7m. Many fundraising calls are made by external agencies, rather than a charity's own staff – 63 per cent of charities included in the survey use agencies.

The institute's code, designed to ensure that telephone fundraising is conducted in a "professional and sensitive manner", applies to both directly employed and agency staff. When charities use agencies, says the institute, they should be engaged on the basis of service fees agreed in advance, rather than commission related to the amount raised.

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For each telephone contact, agencies must supply their names and addresses, and the fee paid by the charity they are representing, if potential donors seek such information.

"In all instances, fundraisers should be able to quote a specific figure," says the code. "Any accompanying explanation or rationale for the expenditure should be in addition to, not in place of, a clear statement of the costs."

The code says telephone fundraisers must give their names and that of the voluntary organisation they represent, and make it clear that the purpose of the call is to request support. Tone, content and style of calls must comply with the requirements of the Advertising Standards Authority.

□

Fundraisers must accept the right of potential donors to terminate a conversation at any stage, and must be able to disclose the name and address of a "properly authorised person" to whom complaints can be made.

Charities are advised that, where possible, householders should be sent advance letters warning them to expect a telephone fundraiser to call. These would give recipients the opportunity to write back saying that they did not wish to be called.

Mr Karl Holweger, who chairs the institute's telephone working group, says he expects telephone fundraising to "increase dramatically" in the next few years. It should be a cost-effective way of matching donors with causes they wished to support, but must be conducted in a responsible way by charities and their agents.

Community foundations, long established in the US, are taking root in the UK

Reservoirs to top up local pools

There is an alternative to giving money to a favourite charitable cause – giving it to a favourite community.

Community foundations and trusts, in existence in the US since early this century, are now becoming a feature of charitable support in the UK. Their task is to build substantial, permanent funds from which grants are made to local charitable and community organisations.

There are still relatively few community trusts in the UK, but their development received a substantial boost from a recent decision by the US Charles Stewart Mott Foundation, acting in partnership with Britain's Charities Aid Foundation, to finance a £2m challenge scheme. Three established UK trusts – the Tyne & Wear Foundation, Greater Bristol Trust and Cleveland Community Foundation – submitted successful bids to share the £2m challenge prize.

To get its one-third share of the prize money, each trust had to top it up to £2m locally by adding £1.33m from its own fundraising efforts. All three trusts succeeded in doing so by the deadline at the end of the 1993-94 financial year.

The Association of Community Trusts and Foundations (Actaf) – which was set up three years ago to support the work of Britain's fledgling trust movement – is now trying to maintain the impetus generated by the challenge programme, and is seeking funds to repeat it.

"It is still early days for the community trust movement in the UK, and one of our most important tasks is to make the public more aware of the value of trusts as a way of supporting local causes," says Ms Gaynor Humphreys, co-director of Actaf. "But new trusts are being formed, and most of the established ones are growing."

Tyne and Wear Foundation, one of the recipients of the challenge fund £2m, is the largest of 15 trusts affiliated to Actaf. Launched at the end of 1988, it had endowments of £4.6m in 1993-94 and made grants of £544,000. It is fundraising with a target of building a £10m endowment fund by the end of the century.

The social deprivation that exists in much of the foundation's area is reflected in many of its grant-making decisions, from £24,000 for work among homeless young people in Hexham to £500 to help publish a newsletter on Tyneside's deprived Meadow Well estate. An important attraction of trusts is that, since grant decisions are made by local committees, it is easier and less intimidating for small community organisations to approach them than to seek help from national trusts or distant corporate sponsors.

First, however, the money must be raised. Mr George Hepburn, the Tyne and Wear Foundation's director, says his trust was helped by the remarkably strong attachment to the north east felt by its business and civic leaders. "Wealthy people were quickly attracted to the idea of the foundation as a means of making a lasting contribution to the region as a whole... It can be rather like having a private family trust fund without going to the trouble of setting one up. If people give substantial amounts, we are happy to involve them in discussions about how the money should be distributed."

A frequent criticism of big national grant-making trusts is that they are usually located in London, with a disproportionate amount of their support going to causes in the south east or national organisations. Mr Hepburn is currently managing £1.5m, which the London-based Henry Smith's charity has decided to invest in projects tackling social deprivation in the north east. He sees this approach – with community foundations acting as agents of national grant-making trusts and contributing their knowledge of local needs – as a way of overcoming concerns about London bias.

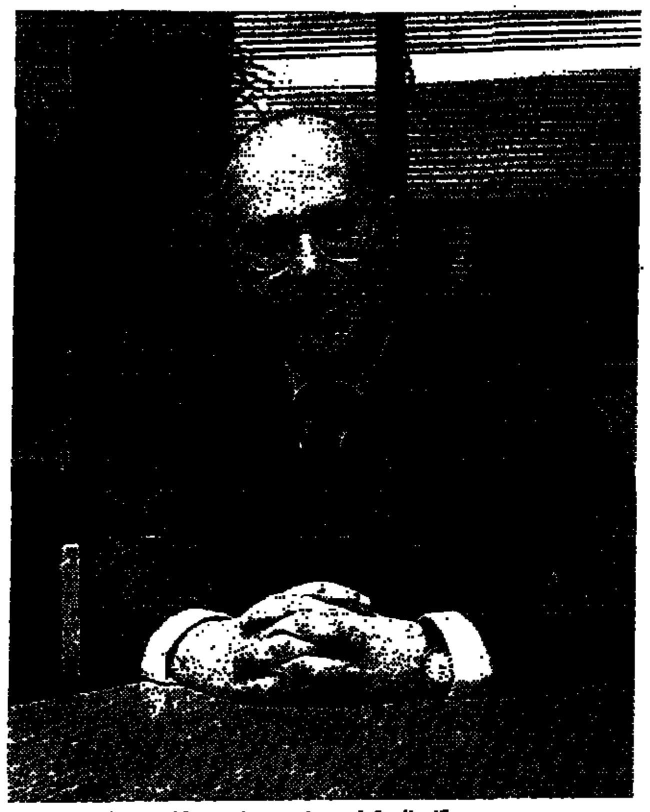
While a strong, supportive sense of local community is an advantage in establishing a trust, not all the current ones are in deprived inner-city areas. Wiltshire Community Foundation is an example of a successful trust in a predominantly rural county.

One of the Wiltshire foundation's first initiatives was to produce a report on rural needs which showed that poverty and social problems are often disguised by the area's conventional image of affluence. The foundation is running a strong campaign to build corporate support in Swindon, the county's main business centre. It has also been selected to manage the £1.6m Wiltshire Independent Living Fund, a new project to give people with disabilities more control over buying the care needed to live independently in the community.

Community foundations are in a particular segment of the fundraising market: they want wealthy individuals and corporate donors to give them very large sums of money. Achieving this is never easy, but the justification – to build up funds that will be of lasting benefit to communities, rather than simply financing single projects – is a powerful one. Growing political interest in the concept of community should help consolidate the community foundation movement in the UK, and encourage its development.

Profile: Stuart Etherington, the new director of the NCVO

Aiming for a sectoral 'CBI'



Stuart Etherington: 'the sector must speak for itself'

Influential figures in the voluntary sector feel that it has been badly left behind in the current public and political debate over the future of welfare services.

That may be about to change. Mr Stuart Etherington became director of the National Council for Voluntary Organisations, the sector's umbrella body, last month with a mandate to clarify its role and raise its profile.

Although Mr Etherington comes from a charity background, his appointment to one of the sector's top posts represents a break with tradition – the NCVO employed headhunters and considered candidates with a wide variety of experience before selecting him. This reflected a recognition by its council of the need for clear leadership during the watershed that charities are facing.

"It is not good enough for the voluntary sector to have its position formed by other people's agendas, whether of the left or the right," says Mr Etherington. "The sector must speak for itself."

He has a vision of turning the NCVO – which, in spite of a long and successful tradition of research and innovation, carries minimal political influence – into a voluntary sector CBI.

Doubters say that, since not all the NCVO's member charities share common interests, it would be difficult for a central organisation to speak with a strong, clear voice on sensitive issues. But neither do all CBI affiliates share common interests; and there is, the new director points out, a greater spirit of co-operation in the voluntary sector, even among "competitor" charities, than in industry.

Mr Etherington, a qualified social worker recruited from the Royal National Institute for Deaf People (RNID), where he had been chief executive for three years, is part of a new managerial tradition that is gradually developing in the voluntary sector. A London Business School MBA, he is proud of the businesslike innovations – like running customer and staff satisfaction surveys – that he introduced at the RNID.

The charity flourished under his leadership, with staff doubling to 850 in three years. Growth was fuelled by the fact that the RNID has made a clear choice in favour of delivering services under contract to public bodies – probably the most sensitive single issue to face the voluntary sector in recent years.

Etherington acknowledges that the question of whether charities should put their energies into providing contract services to health and local authorities, and if so on what terms, raises difficult questions.

"Do you use charitable funds to subsidise market entry? At a time when there is pressure on public finance, are contracts likely to be set at levels which are adequate enough to enable charities to fully recover their overheads? To what extent can charities continue to innovate with new forms of services if they are bound by contracts? All these are issues to which we must give attention. But the biggest potential downside is the danger that charities will lose legacy income, from which many meet their core costs, if benefactors believe they are simply agencies delivering public services."

Etherington had practical experience of this difficulty while at the RNID. Some people told him "this place is run just like a business" – and used this as an argument for refusing to donate money rather than as a tribute to the charity's efficiency.

If the government wants charities to take on public services, he says, it must ensure that contract fees are sufficiently high to meet overhead costs. "But at the moment it is going the other way – residential home fees, for example, are being squeezed down."

The NCVO is setting up a high-level commission on the future of the voluntary sector, intended to stimulate new thinking about its role and priorities. In the shorter term, Mr Etherington intends to convene a panel of charity chief executives in the spring to thrash out a set of immediate strategic priorities. "There is not enough strategic thinking. It is difficult because the voluntary sector is so fragmented, but we must try to get better at establishing our priorities."

His own include "putting quality and all the things that relate to it high on the agenda" – his efforts at the RNID to ensure that both its staff and those who use its services shared common objectives is an illustration of this.

"I detect a growing public anxiety about charity efficiency," he says. "Still tighter regulation would not be the answer – that would push smaller charities over the edge – so the solution must be through self-regulation and the setting of quality standards.

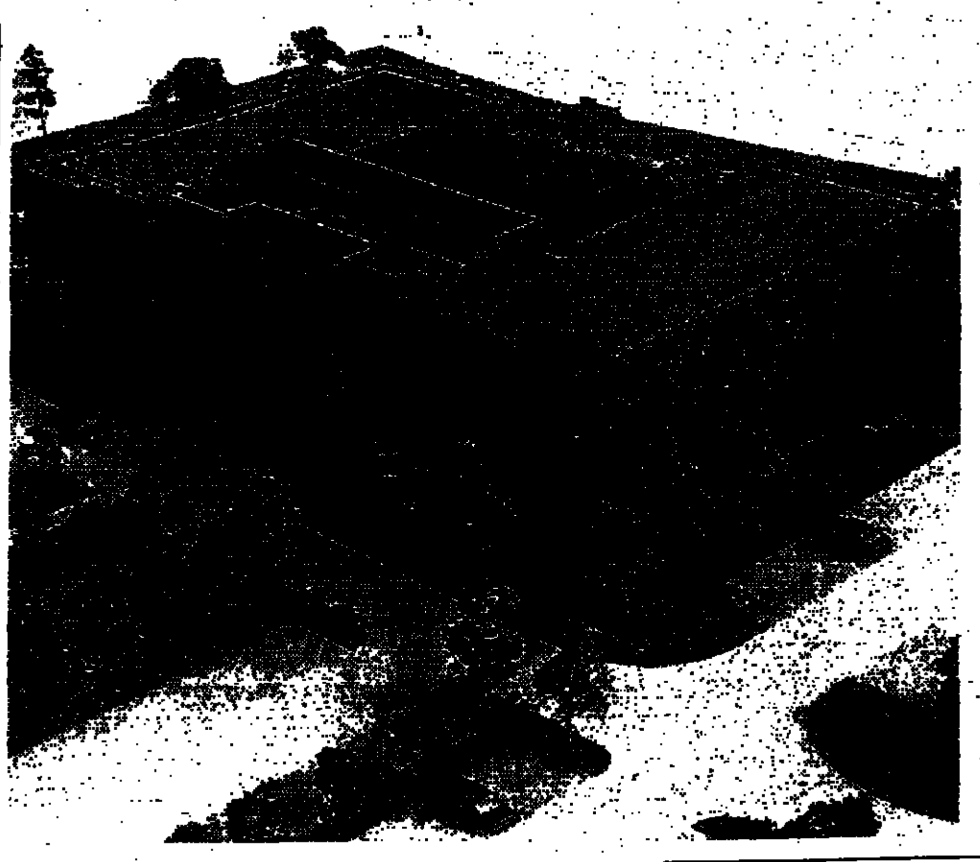
"But we must remember that the sector has real strengths. The private sector is currently much occupied with issues like corporate governance, the social responsibility of business and the management of knowledge workers – these are all subjects where the voluntary sector has something to teach others."

At last month's Charities Aid Foundation conference Mr Etherington, in his first big speech as NCVO director, called for the voluntary sector – in spite of its legendary diversity – to identify common ground.

"That common ground is surely our purpose, and that purpose has an almost lyrical simplicity: we are driven by our stakeholders, not shareholders. We are motivated not by party politics but by our beneficiaries. We are value driven, not money driven."

The language will have reassured voluntary sector traditionalists, who fear that the arrival of Mr Etherington, with his business school ideas, could lead to a further blurring of the edges between the public, private and voluntary sectors. He now faces the task of convincing those traditionalists that, while the voluntary sector may be value-driven rather than money driven, there is no virtue in amateurism for its own sake. It is not a business, but success still depends on efficiency, probity and high quality services.

New home for CAF



The Charities Aid Foundation, which works to increase the resources available to charities, is to lease a new 35,000sq ft building at the Kings Hill business park, close to the M20, in Kent.

The CAF's new headquarters (pictured here in model form) has been designed by the architect Nicholas Hare. Kings Hill developers Rouse Kent say it will incorporate the controlled use of daylight and natural ventilation, avoiding the use of air-conditioning.

The £5.25m project is being funded by Liberty Property Trust, the American parent of Rouse Kent. Work started this month on the building, which is expected to be ready for occupation by the autumn.

Initially, 170 staff from the CAF's offices in Tonbridge and Tunbridge Wells will move to Kings Hill, and occupy two-thirds of the building. The extra space will allow the CAF to expand, and will be sub-let until needed.

Many charity leaders fear the effects of the National Lottery

Irish precedent casts a shadow

The National Lottery was launched last month amid criticism that charities are unlikely to receive any allocation of the proceeds until late next year.

Leaders of many charities, however, remain more worried about the lottery's possible effect on the voluntary sector's overall long-term finances than delays in the distribution of funds.

Charities will gain an estimated £100m share of the first year's lottery proceeds. Mr David Sieff, chairman of the National Lottery Charities Board, has pointed out that a distribution of this size would make the board bigger than any existing UK grant-making foundation. Yet the voluntary sector is not rejoicing.

There are fears that many people will come to regard lottery tickets as their standard form of charitable support, and will be less inclined to respond to other fundraising appeals – even though charities will receive only a small share of total lottery revenue. To compensate for this, many voluntary-sector leaders believe charities should get a greater proportion of the overall lottery distribution.

> The National Lottery revenue is divided roughly as follows: prize money (50 per cent), beneficiaries (28), tax (12), retailers' commission (5), operating costs and profit (5). Groups of beneficiaries designated by the government to receive equal shares of funds are: the arts councils and sports councils of England, Scotland, Wales and Northern Ireland, the National Lottery Charities Board, the National Heritage Memorial Fund, and the Millenium Fund.

Such feelings were intensified by the reduction in pools betting duty in last month's Budget. This will produce a gain for sport and the arts – which will both share in the lottery – of an estimated £100m a year. But there was no response in the Budget to the voluntary sector's lobbying for improved tax reliefs to encourage charitable giving, or help with the annual £330m bill for unrecoverable VAT paid by charities.

The Irish voluntary sector had similar concerns to those being expressed in the UK when a state lottery was introduced in 1987. Research on the lottery's impact during its seven years of operation in the republic remains open to varying interpretations.

An assessment commissioned by the Irish national lottery organisers in 1992 concluded that, while the lottery's absence would increase the potential fundraising base for voluntary organisations, it was not clear that their actual income would go up once the loss of lottery disbursements was taken into account. However, a survey of a sample of Irish charities last year found that 87 per cent of those that had been affected by the lottery regarded its impact as negative.

Whatever effect the UK's lottery subsequently has on charities' own fundraising efforts, there will be no shortage of applications for a share of the proceeds.

The National Lottery Charities Board will handle funding requests from both registered charities and other organisations set up for charitable, benevolent and philanthropic causes. This means that about 700,000 organisations, from national charities to small local groups, could all apply for funds. The board is working on estimates of 150,000-250,000 applications a year.

Separate committees of the board will be set up for England, Scotland, Wales and Northern Ireland, with allocation of funds based on population weighted to take account of levels of deprivation. Consultations are under way to establish local advisory panels, which will respond to variations between the English regions, and devise methods of funding UK-wide organisations.

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MANAGEMENT: MARKETING AND ADVERTISING

Diane Summers on the advantages of centralised media buying in a fragmented US market

Clout of a specialist

A shake-up in the way television and press advertising is bought and sold across the US is likely following last week's announcement that Saatchi & Saatchi's UK media-buying company Zenith is crossing the Atlantic.

From January, Zenith will be trying to persuade US advertisers to act more like Europeans – consolidating their vast advertising budgets and placing responsibility for the purchasing of airtime and press space with media specialists, away from the "creative" side of the advertising business.

Zenith, already well established across Europe, will instantly become the US's single biggest media buyer, with billings of about $2bn (£1.2bn). This will be achieved by bringing together the media-buying functions of the Saatchi group's three US advertising networks – Saatchi & Saatchi Advertising, Bates USA and Campbell Mithun Esty.

Further ahead, Zenith's intention is to attract third-party custom from outside the three networks, as it has done, for example, in the UK – where more than half its business comes from non-Saatchi group advertising agency clients.

Until now the US market has largely operated along traditional "full-service" agency lines.

This has been partly because of the fragmentary nature of the US media – it is easier to function as a specialist buyer when there is a single national market, dominated by a handful of media owners, as is the case in most European countries.

But John Perriss, Zenith chairman, argues that it is the complexity of the US scene which justifies the media specialist's existence. The primary advantage to advertisers of centralised buying with one specialist agency is the price reduction obtained by making bulk purchases from media owners.

Perriss argues that his business is about more than just crude pricing. "It is about the complex new media environment. The average home in the US now has 38 TV channels."

Zenith's function will be to advise advertisers on the optimum mix of channels to deliver the required audience at the lowest cost, and to guide them on new media opportunities, as well as providing clout in price negotiations with network owners, says Perriss.

Zenith is emphasising its investment in state-of-the-art information technology: all 250 employees in its eight offices will be linked by PCs capable of working in multimedia formats, so that advertisements and programme clips can be viewed while negotiations with media owners are taking place.

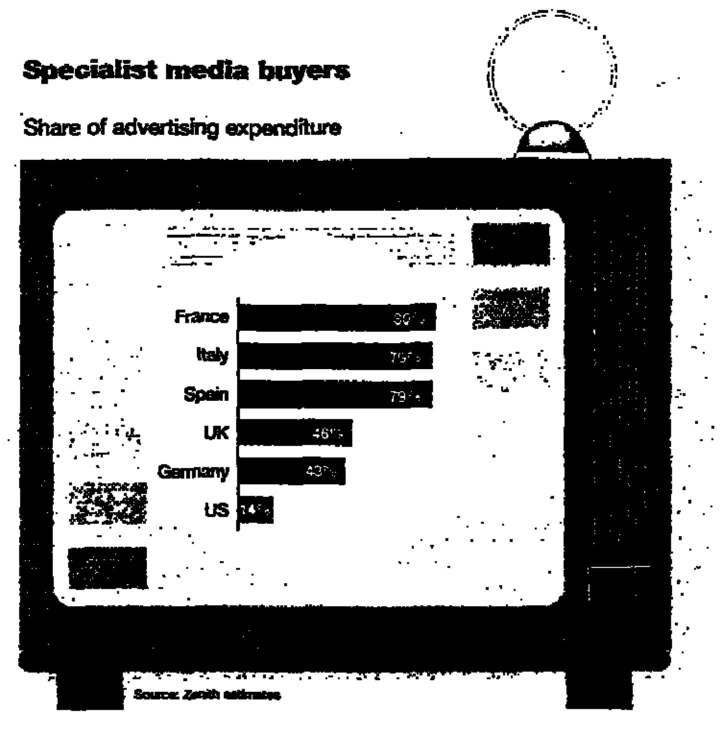
The Saatchi group has not been the only organisation to invest in specialist media buying in the US. Last month, for example, the US advertising group Interpublic announced it was buying Western International Media, the country's largest independent buyer, although it said it had no plans to combine the media operations of its constituent agencies, which include McCann-Erickson, Lintas and Lowe. Other individual agencies have been establishing arm's-length media outfits.

Clients have also started "unbundling" media buying from the creative side of their advertising purchasing, for which two or three agencies could be used. Indeed, it is movement from clients which has finally persuaded the Saatchi group to press ahead with Zenith's entry into the US: Procter & Gamble took its network TV buying away from the US Saatchi agency, while Bates lost TV buying for Mars – in both cases the work went to agency DMB&B.

The move to specialist media buying in the US will undoubtedly be good for clients, says Neil Blackley, media analyst with Goldman Sachs.

Specialist media buyers

Share of advertising expenditure



Source: Zenith estimates

But he wonders whether it will turn out to be the "start of a slippery slope" for the advertising agencies and their investors. The moment that "unbundling" begins, agency remuneration comes under intense scrutiny and margins are eroded.

If an advertiser is paying the traditional 15 per cent commission to an agency, and can suddenly get media buying for 3-4 per cent as the market becomes more competitive, that leaves the "creative" side of the job costing 11 per cent. Blackley says the advertiser may decide that looks too steep, and commission may be cut to say 8 per cent.

This erosion of margins and cannibalisation of existing business has been the pattern in Europe.

The real advantage to Zenith will come when it starts to pull in third-party business and win new clients among those advertisers who are in the process of media consolidation. Blackley says: "The first person into the market – as we've seen with Murdoch and his price cutting on newspapers in the UK – takes the major benefit. If they can demonstrate they're getting a real advantage for their clients, then they're going to start winning more than their fair share of consolidation business and their third-party billings will go up. It's bound to create a response from other agencies."

Publishing to a prescription

Virginia Matthews reports on a new chapter in brand loyalty

Early next year, Boots The Chemist will become Boots the publisher when the Nottingham-based cold-cream to corn plaster giant dips into the glamorous world of women's magazine publishing.

The Boots Magazine, which begins life as a quarterly, will "aim to apply Boots brand values to a publication, rather than to a product," says Michael Potter, managing director of Redwood Publishing, drafted in by Boots to handle the new venture.

While Boots has no direct publishing experience, it already has a potential readership in the 27m customers who use the store each month – the core of them women aged between 25 and 40.

According to the company's own research, a large proportion are looking for advice and information on anything from glossier hair to staving off heart disease.

While the new title will inevitably contain information on and advertising for Boots products, it is not intended simply to be a marketing platform for the company, but a readable glossy magazine – "a genuine health and beauty title", says the company.

The magazine will not only carry advertising for rivals, among them cosmetics and pharmaceuticals companies, but it will also have a cover price of 95p.

Although distribution of the 250,000 print run will initially be restricted to 500 of the chain's bigger branches, the intention is that it could one day earn a place on newsstands.

A decade ago, so-called customer magazines were thinly disguised company puffsheets, about as welcome to credit card or bank customers as the bills they invariably accompanied.

But today, as everyone from supermarkets to car makers seek to build customer loyalty by adding publishing to their portfolios, the quality of the magazines continues to improve.

Last month, J. Sainsbury's monthly title, *The Magazine*, with a cover price of 95p for more than 200 pages of good eating and aspirational lifestyles, earned the Magazine of the Year award from *Media Week* magazine, against stiff competition from more traditional publishers.

This glossy title, whose previous contributors have included Michael Palin and Beryl Bainbridge, has in 18 months achieved a 325,000 circulation, making it the UK's seventh-biggest selling consumer magazine.

While distribution thus far remains limited to Sainsbury's own retail outlets, few industry observers would dismiss it as just another company magazine.

"One of our aims in launching our magazine 18 months ago was to enhance the company's image with its customers, and this has certainly been achieved," says the company.

According to the Association of Publishing Agencies, which represents contract publishers such as Redwood (which has contracts with the AA, Marks & Spencer and American Express), there are now at least 110 customer magazines in Britain, ranging from airlines and department stores to computer firms and building societies. They are primarily communications vehicles.

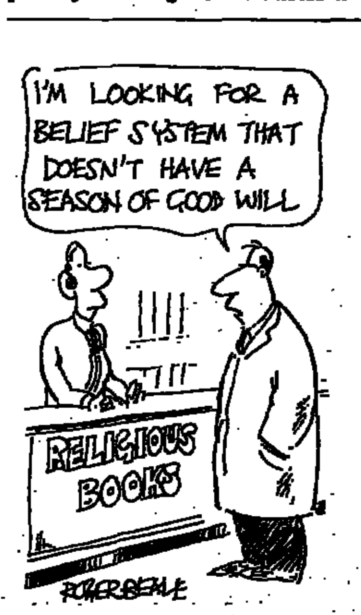
Barclaycard, for instance, will launch its first customer magazine at the end of January. The title, yet to be named, will be sent free to all card customers, making it one of Britain's largest customer magazines with a circulation of 3m.

The magazine will inevitably be an advertising platform for the card giant, as well as for third-party advertisers keen to establish a presence with Barclaycard's affluent audience.

The real value of such a customer magazine, says Neil O'Brien, whose company, The Publishing Team, also produces Open Door (the Alliance and Leicester magazine), is as a loyalty builder.

"The magazine won't make a fat profit for Barclaycard, and all the costs will come out of the marketing budget," he says.

"But if it generates loyalty to Barclaycard, and acts as a genuine communications forum between the company and its customers, then it will be a wise investment."



Cashing in the Kwanzaa way

A new breed of December shopper is hitting shops in the US, searching for gifts and cards for Kwanzaa, as opposed to Christmas or Hanukkah.

The popularity of Kwanzaa, created in 1966 by pan-African studies professor Ron Karenga as a black American alternative to Christmas, has snowballed in recent years. Kwanzaa, which means "harvest" in Swahili, is a seven-day celebration that includes fasting, family dinners, candle-lighting ceremonies and group discussion on topics such as unity and co-operative economics. About 5m Americans now celebrate the holiday, which begins on December 26. Retailers have started to cater specifically to Kwanzaa shoppers.

Book stores do a brisk business in Kwanzaa publications. Because the holiday is relatively new, many participants are still unsure of the traditions, so books explaining Kwanzaa customs are popular.

Kwanzaa cards are also in demand. The greeting card maker Hallmark, for instance, retails 16 versions of cards for the holiday. "It's a growing market, especially in urban centres," says Rashena Lindsay, marketing co-ordinator for the group. "We may offer a new line of Kwanzaa gift bags and wrapping paper next year."

A number of stores sell Kwanzaa decorations and ceremonial items, such as seven-place candelabras – participants light one candle each day. Flower shops, which once carried decorative corn husks and gourds only for the American Thanksgiving Day holiday, now offer them in December.

But Kwanzaa gifts are tricky to pitch. The holiday is supposed to reject the commercialism of Christmas, and Kwanzaa presents were meant to be simple, homespun items such as candles. However, stores say that an increasing number of shoppers are looking for Kwanzaa presents. The chain store Learningsmith, for instance, says its African stone game is a best-seller during the holidays. "We get quite a few people looking for Kwanzaa presents," says Ellie Hendrix, who runs the Vilunya Folk Art store in Cambridge, Massachusetts. "They buy things like baskets, jewellery, blankets, anything that comes from Africa."

The success of Kwanzaa is an enigma to some, who thought a holiday promoting group discussions on abstract subjects would not become popular. But many black Americans are looking to African themes to cultivate a sense of pride in their heritage.

And Kwanzaa has become more flexible with the years. Some Americans have started to bend the strict gift-giving rules.

The result may not be the anti-commercial alternative to Christmas that the holiday's founders had in mind, but for the retail market it is a lucrative bonus.

Victoria Griffith

COMPANY NOTICES

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Prices for electricity determined by the purposes of the electricity pooling and settlement arrangements in England and Wales

1/2 hour ending	Pool purchase price	Pool selling price	
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2400	[illegible]	[illegible]	[illegible]

LEGAL NOTICES

No. 006405 of 1994

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION

IN THE MATTER OF LEX RETAIL GROUP LIMITED

AND

IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 16 November 1994 confirming the reduction of the Share Premium Account of the above-named Company by £7,504,000 was registered by the Registrar of Companies on 17 November 1994.

DATED this 28th day of November 1994.

Berwin Leighton
Adelaide House
London Bridge
London EC4R 9HA
Solicitors for the above-named Company

THE

DAVID THOMAS PRIZE

David Thomas was a Financial Times journalist killed on assignment in Kuwait in April 1991. Before joining the FT he had worked for, among others, the Trades Union Congress.

His life was characterised by original and radical thinking coupled with a search for new subjects and orthodoxies to challenge.

In his memory a prize has been established to provide an annual study/travel grant to enable the recipient to take a career break to explore a theme in the fields of industrial policy, third world development or the environment.

The theme for the 1995 prize, worth not less than £3,000, is:
DOES FREE TRADE THREATEN THE ENVIRONMENT?

Applicants, aged under 35, of any nationality, should submit up to 1000 words in English on this subject, together with a brief c.v. and a proposal outlining how the award would be used to explore this theme further.

The award winner will be required to write a 1500 to 2000 word essay at the end of the study period. The essay will be considered for publication in the FT.

CLOSING DATE JANUARY 6 1995

APPLICATIONS TO:
ROBIN PAULEY, MANAGING EDITOR
THE FINANCIAL TIMES (L)
NUMBER ONE SOUTHWARK BRIDGE
LONDON SE1 9HL

TECHNOLOGY

Michael Lindemann looks at a transport system that will be propelled by magnetic attraction

Whispers from the runway

For the past 10 years a 90-tonne machine has been tearing around an elevated concrete track in north-west Germany, reaching speeds of up to 450kph but making none of the noise made by aircraft travelling at that speed. It is the Transrapid high-speed train, also known as the whispering arrow.

Now, after years of debate, the German government has approved plans to build a 284km track between Berlin and Hamburg, Germany's two biggest cities, in a move that is expected to take passengers away from those airlines flying the route.

The Transrapid will be the world's first long-distance transport system propelled by magnetic levitation, a technology that Thyssen, the German conglomerate, has been developing. Instead of conventional engines, the Transrapid is propelled by magnetic fields. It has no wheels and rather than run on conventional railway tracks it clutches a concrete runway rather like the runner on a curtain rail.

The technology dates from the 1920s when Hermann Kemper, an electronic engineer who ran a meat packing business near the present 32km test site in Emsland, began poring over papers about the theory of magnetic levitation.

Kemper developed a model in his cellar where objects were fired along runways by passing mains electricity through electromagnets mounted on the objects and on the runway.

In 1934 he registered his patents and tried unsuccessfully to persuade Siemens, the electronics company, to take up his ideas.

What was missing, according to Hans Georg Raschbichler, an engineer from Thyssen Henschel, the locomotive builder, was the means to produce and transport large amounts of electricity at split-second intervals. "They didn't have the sort of high-tech electronics which exist today," he says in his office in Munich.

Now that large amounts of electricity can be passed around a grid and engineers can regulate the 10mm gap between the runway and the vehicle, two key bits of technology are available which mean that Kemper's model can become a reality.

The Transrapid operates on different principles from the maglev technology used elsewhere in the world. Conventional magnetic levitation works by using the repellant force of superconductive magnets of opposite polarities. In the Transrapid, propulsion comes from the force of magnetic attraction.

By passing electrical current through a stator pack, the stationary part of an electric motor which is laid out on the underside of a concrete runway, a wandering magnetic field is created. This magnetic field – called wandering because it moves down the runway – is attracted or excited by levitation magnets mounted on the underside of the Transrapid, so propelling the vehicle forward.

The Transrapid picks up speed proportional to the increase in electrical current; the opposite happens when the frequency is reduced. If there is a power failure, batteries on board the Transrapid are used to power the eddy current braking system and to guide the vehicle to an emergency stop on the runway.

The vehicle glides about 10mm above the concrete runway, a gap which is measured by a computerised sensor: if it becomes smaller, the computer orders more electricity, less if it becomes bigger. The process is repeated thousands of times, keeping the gap constant and enabling the magnet to pull the Transrapid.

Raschbichler heads a team of engineers at Thyssen Henschel which ran the Transrapid 07, the seventh prototype, up to a maximum speed of 450kph last year. They are now putting it through 500,000km of tests before it can be licensed to operate.

Tests have shown that the vehicle uses less energy and is quieter than the French TGV (Train à Grande Vitesse) or the German InterCity Express (ICE), the two high-speed trains which are its main competitors. Stand 25m away from a Transrapid passing at 300kph, and the maximum noise level recorded is 87 decibels – less than a freight train travelling at 100kmh. Tests by independent engineers recorded about 100 decibels for a TGV travelling at the same speed.

Because the Transrapid glides above a concrete runway it does not need to overcome the resistance between track and wheels which traditional railway technology still has to grapple with. That means, according to Thyssen Henschel, that the Transrapid uses around 30 per cent less energy than a high-speed train travelling at the same speed.

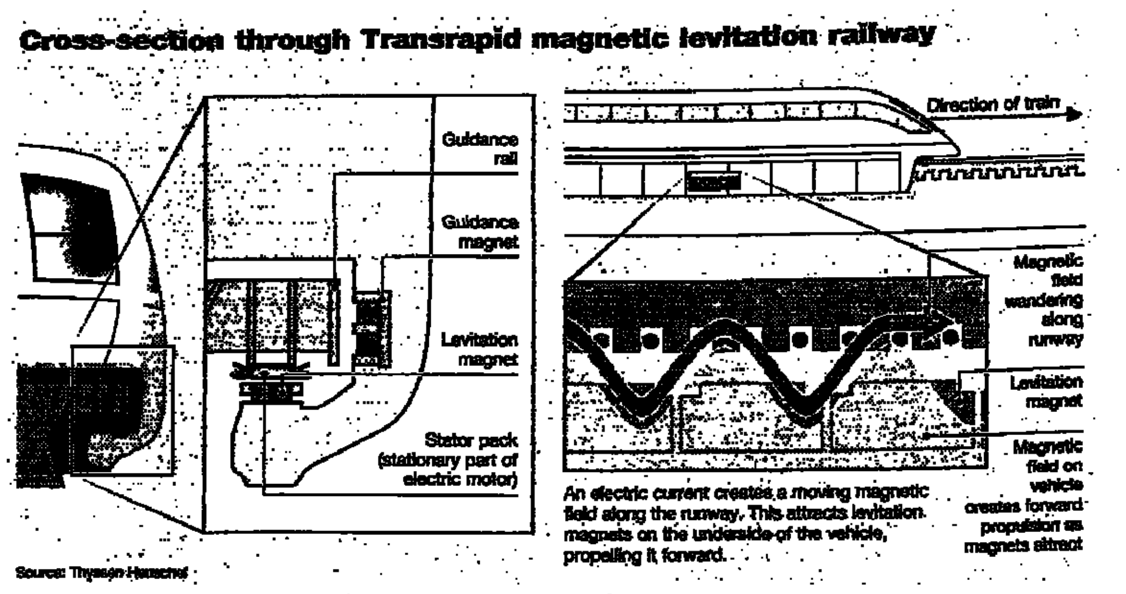
The government hopes that by 2004 a runway – similar to the present test track – will be built and that more than 14m passengers a year will be hurtling between Germany's two biggest cities. A journey that now takes more than three hours by train will take just 55 minutes by Transrapid.

The DM5.6bn (£2.3bn) needed to finance the runway and infrastructure will be put up by the federal government, and Thyssen has created a company together with Lufthansa, the national airline, and Deutsche Bahn, the state railway, which have to find DM4.8bn to operate the service.

The Japanese are working on similar technology but opted in the early 1970s for an electrodynamic levitation system – where magnets repel rather than attract each other. The different system also creates a 10cm gap, rather than 10mm, between the vehicle and the runway which the Japanese say is better suited to deal with earthquake risks.

The Transrapid technology creates magnetic fields of about 40 amps – no bigger than those created by an electric razor – while the Japanese have to grapple with big magnetic fields of up to 700,000 amps. About four times as much electricity is needed to control the movement of the Japanese train across such big magnetic fields and Thyssen says they are so powerful it is thought people wearing pacemakers will not be able to use the trains.

Cross-section through Transrapid magnetic levitation railway



Source: Thyssen-Henschel

British science sells well

International investment in UK science amounts to an "invisible expert" worth about £1.4bn a year, the House of Lords science committee says today.

In 1992-93, the last year for which figures are available, overseas companies paid £1.1bn for industrial research and development in the UK. In addition, universities received £135m in research grants and contracts and £130m in fee income from science students.

The Lords found that overseas funding of British science rose sharply during the 1980s and reached a peak of £1.6bn in 1990-91.

The decline over the following two years was partly due to "increased competition from other countries, particularly Pacific Rim countries which are rapidly building up their R&D facilities", says Lord Walton of Detchant, committee chairman.

International investment does not normally feature in science policy discussions, and the Lords found it difficult to gather reliable evidence for their inquiry. In particular, they failed to come up with a corresponding figure for UK spending on science abroad, though, Lord Walton says, "our feeling is that investment coming in from overseas is greater than the amount going out".

The Lords found the issue to be controversial. "There are those who say that by locating R&D facilities in the UK, making research contracts with British universities, and placing sponsored professors and research students in leading departments, foreign countries and companies are engaged in 'overseas exploitation of UK brains'."

The report rejects that argument and concludes that foreign investment in UK science should be encouraged, with more programmes to encourage scientific links with Asian countries in particular. "The future of British science lies in free trade, not protectionism," it says.

Clive Cookson

International Investment in UK Science, HMSO, £12.95.

Cargo vessels take to the air

A group of ship-builders in Japan is focusing on speed, writes **Robert Patton**

Sea transport gave way decades ago to roads, rail and air as the fastest way to move goods around the world. However, a consortium of Japanese ship builders is developing a high-speed cargo ship that may bring sea transport back into fashion.

The seven-company consortium, Technological Research Association of Techno-Superliner, has been working on the ship since 1989. The goal is to make the transport of time-sensitive goods by sea a serious alternative to road, rail and air.

The techno-superliner, with a cruising range of about 930km, will carry 1,000 tonnes of cargo over, rather than through, the waves at speeds of at least 50 knots. This compares with 35.5 knots achieved in a trial run earlier this month by a car ferry, and the previous 30.5 knots record held by a Finnish vessel.

The developers are testing designs that lift the hull out of the water, reducing water resistance. Propulsion and steering systems will use movable water jets since there will be no conventional hull to support propeller and rudder.

The consortium, which includes Mitsubishi, Kawasaki and Sumitomo, is testing two designs that lift the hull: the hydrofoil and the air cushion. The hydrofoil uses the same principle that keeps conventional aircraft aloft. "Wings" beneath the water's surface produce lift which keeps most of the craft out of the water and free of its resistance to motion.

The air cushion type uses large fans to create a "cushion" of air under the ship. The hull shape includes skirts that surround the air cushion and contain it. The result is that the craft skims over the air cushion instead of ploughing through the water like conventional cargo ships.

Neither of the designs is new, but they have not been used successfully to build vessels as large and as stable as the techno-superliner will have to be.

Experimental vessels of both types have been built and have been in sea trials since July. The Hayate (Japanese for "swift wind") is the hydrofoil version. A one-sixth size scale version has reached speeds of 41kph in tests. But the most advanced model is the air cushion ship Hisho (meaning "flight").

The 70m Hisho, built to approximately half-scale, has recorded speeds up to 54 knots. The captain and crew reported good manoeuvrability and seaworthiness in high waves. Hisho, they say, can safely weather 3m waves.

In sea trials between July and September, the air-cushion ship was put through its paces off the coast of the Goto islands in Nagasaki prefecture and since then has sailed the length of the Japanese archipelago. Although the experimental vessel is not equipped for cargo handling, the weight of cargo is simulated using a centrally located water tank.

In two test runs, with cargoes of 100 and 200 tonnes, the experimental ship attained 50 knots. Next year, Hisho will be used to conduct safety trials.

The vessel will move goods in 12 hours or less from Tokyo to Hokkaido in the north or Kyushu in the south or even to neighbouring Asian countries in just a day or two, the developers say.

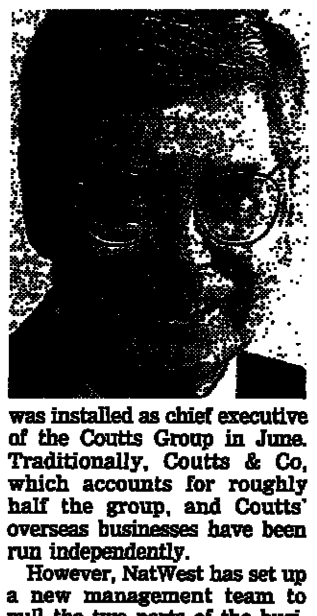
The companies have spent Y75bn (£475m) on the techno-superliner project over the past six years, but about double that amount will be needed to build a full-scale, 127m version of Hisho. That is twice the cost of a conventional ferry of the same size.

Fuel consumption is 10 times that of conventional, slower craft and Hisho requires special cargo handling equipment to minimise the time spent in port. But once those problems have been solved, Hisho's 200,000 hp engines will power a cargo ship capable of carrying 100, 10-tonne, 20m cargo containers to and from any port in or near Japan.

PEOPLE

Coutts calls Post to account

Not many US investment bankers are more anglicised than Lehman Brothers' Herschel Post (right). An Oxford Rhodes scholar and deputy chairman of the London Stock Exchange, Post has been given the ultimate establishment job – chief operating officer of Coutts, the frock-coated bankers to Britain's royal family.



Not that Post, currently chief operating officer of Lehman Brothers in London, will be donning a frock-coat himself. He is joining a new management team being put in place by Coutts' parent, National Westminster Bank, and frock-coats are no longer *de rigeur*. After years of leaving Coutts to its own devices, NatWest is intent on turning it into a truly global private bank.

Post, 55, who joined Lehman Brothers after spells with J.P. Morgan and Euroclear, will be the effective number two to NatWest's David Went, 47, who was installed as chief executive of the Coutts Group in June. Traditionally, Coutts & Co, which accounts for roughly half the group, and Coutts' overseas businesses have been run independently.

However, NatWest has set up a new management team to pull the two parts of the business together. Post will be "responsible for all issues relating to Coutts' global operations" and will oversee the investment management side.

Coutts has also recruited Lorraine Trainer, 42, the former director of human resources at the London Stock Exchange, to be director of human resources and organisational development, and Richard Wise, 37, joins from Mercury Asset Management to be Coutts' chief financial officer.

The new appointments just about complete the clear-out of Coutts' old top management team which began three years ago when Ian Farnsworth, a NatWest general manager, took over from Julian Robards as managing director; though it is understood that Coutts is still looking for a new marketing director. Virtually all the top positions at Coutts are now held by either NatWest personnel or outsiders drafted in. *William Hall*

Bodies politic

The Confederation of British Industry's determination to take tourism seriously received a further boost this week when four new members joined its tourism action group. This brings the membership of the group, which aims to boost tourism's standing in the UK, to 22.

The most prominent of the four new members is Denis Tunnicliffe, managing director of London Underground, which frequently receives better reviews from foreign visitors than it does from the capital's regular users.

The other members are Rowland Hardwick, managing director of English Country Cottages, whose ravishing brochures boast some of the best UK self-catering accommodation; Neil Chalmers, director of the Natural History Museum; and Henry Head, md of Norfolk Lavender, which grows lavender and whose farms are a tourist attraction in their own right.

The action group is chaired by Sir John Egan, chief executive of airports group BAA. *Michael Skapinker*

■ Nigel Whittaker, executive director of Kingfisher and chairman of the CBI's distributive trades panel, is to switch retailing horses. After nearly seven years on the CBI panel, he is now to take up the position of chairman of the British Retail Consortium.

His replacement at the CBI is Alastair Eperon, director of corporate affairs at Boots, and a previous chief executive of McAvoy Bayley, the public relations firm.

Whittaker's new job as non-executive chairman is largely an honorary one. However, it may have help to improve the BRC's links with the CBI's panel. James May, the director general of the BRC, has admitted in public that he remains distinctly unconvinced by the accuracy of the CBI distributive trade survey. Whittaker, however, is – naturally enough – a great fan of the survey he has presided over for the past seven years. *Gillian Tett*

■ **John Keeton**, a director of Rathbone Trust Company, has been appointed chairman of the ASSOCIATION OF CORPORATE TRUSTEES.

■ **Duncan Slater**, former British High Commissioner to Malaysia, has been appointed chairman of The Research Institute for the Study of CONFLICT AND TERRORISM.

■ **David Haydock**, md of Roger Haydock & Co, has been elected chairman of the TIMBER RESEARCH & DEVELOPMENT ASSOCIATION.

■ **Paul Barry**, md EC Harris International, has been elected chairman of the BRITISH CONSULTANTS BUREAU.

John Wardle

John Wardle, an important figure in Midlands legal and corporate circles for over 20 years, has died after becoming ill last week. His medical condition had been fragile since a stroke in 1974.

He spent his career at Edge & Ellison, solicitors, finishing as senior partner having helped to build the firm up into one of the leading regional legal practices. But at the same time he was in demand as a company director.

He served with quoted companies like Forward Group, Hampson Industries and Metalrax and unquoted companies like J.W. Norton Services, Saville Barkers Newsagents and Turbine Blading Group. As a chairman he specialised in chatty, idiosyncratic statements. *Paul Cheeseright*

■ **Stephanie Monk**, group personnel director who also chairs the Equal Opportunities Panel of CBI Employment Policy Committee, has been appointed to the board of GRANADA GROUP.

■ **Graham Hawksworth**, formerly UK general manager of the Lexus division of Toyota (GB), has been appointed md of JACK BARCLAY, following the death of Victor Barclay.

■ **Jon Marx**, md of European Packaging, has been appointed to the board of LOW & BONAR.

Non-executive directors

■ **Keith Humphreys**, chairman and md of Rhone Poulenc Ltd, at HICKSON INTERNATIONAL.

■ **Victor Scherrer**, formerly ceo of the European baked foods division of Grand Metropolitan and latterly president of the ANIA (French Association of Food and Drinks Industries) and vice-chairman of CNPF (Confederation of French Industries and Services), at SIDLAW GROUP.

■ **Brian Hardy**, director of finance at Burmah Castrol, at STOREHOUSE; he will become chairman of the board's audit committee on the retirement of Margaret Downes next year.

■ **Charles Sleigh** as chairman at INVESTORS CAPITAL TRUST; Sir Robin Duthie, Sir Charles Fraser and Roger Inglis are resigning on the company ceasing to be a subsidiary of the British Asset Trust.

■ **Niven Duncan** as deputy chairman of EASTERN GROUP.

■ **Matthys Roux** has retired from ROTHMANS INTERNATIONAL.

■ **Alan Carter**, a former national vice-chairman and European representative of the British Gear Manufacturers' Association, at PMC GROUP (HOLDINGS).

■ **Peter Harrop**, chairman of Kalamazoo, as chairman at PINACL.

■ **John Walkley**, head of expatriate compensation development at Shell, at EMPLOYMENT CONDITIONS ABROAD.

■ **James Stanford** has resigned from AEROSPACE ENGINEERING.

■ **Chris Morley** at CAMBRIDGE WATER COMPANY; Lord de Ramsey has resigned.

■ **George Simpson** (below), chief executive of Lucas Industries, at ICI.

هكذا من الاصل

صورة من الاصل

Cinema/Nigel Andrews

Tall tales of manor'd wealth

Princess Caraboo, the tale of a beautiful vagrant girl (Phoebe Cates) who is adopted by early 19th century English high society in the belief that she is a foreign princess, shows that people will believe anything if it comes in a charismatic wrapping.

They may even believe that this medium-jolly if maddeningly erratic movie is based on a real story. So contends co-screenwriter John Wells. But I have been to that well before, or tumbled down it. As a humble theatre reviewer I once fell for Wells's claim that his play *The Projector* (Stratford East, 1970s) was an authentic "lost" 18th century comedy. Result: egg on my face and the near-termination of a promising critical career.

Let us just say that even if *Caraboo* is true it cannot have been true like this. English society never consisted, we hazard, of Jim Broadbent and Wendy Hughes living, however entertainingly, in manor'd wealth with a set of strange furniture (seashell-upholstered settees a speciality) and a Greek butler portrayed with tortured vowel sounds and expressive moustache by Kevin Kline (very funny).

No ill-nourished vagrant ever looked like Phoebe Cates (aka Mrs Kline), who resembles a well-fed graduate of Hollywood High School seeking further doughnuts. And no surviving picture of the Prince Regent suggests that he resembled John Sessions wearing *Mikado* cast-offs. Sessions's look of camp, gobstopper-cheeked naughtiness also

PRINCESS CARABOO (PG)
Michael Austin

NEVER ENDING STORY III (U)
Peter MacDonald

THE PAGEMASTER (PG)
Joe Johnstone and Maurice Hunt

THE NUTCRACKER (U)
Emile Ardolino

CHASING THE DEER (PG)
Graham Holloway

ONLY THE STRONG (15)
Sheldon Lettich

comes closer than ever before to suggesting he may be the illegitimate son of Freddie Jones.

The movie trips along with its strange, rambling comic gait, never quite adding up to the sum of its parts, fruitily though these are played. Add Stephen Rea (loves-truck journo), the Reverend John Wells (more gobstopper cheeks) and Professor John Lithgow, English-accented again after *A Good Man In Africa*, and you have a surging roster of multi-style talent seeking a central meeting place. But director/co-writer Michael Austin stands around like a dazed traffic policeman. Moods collide (satire, farce, mystery, romance); characters honk and criss-cross; and if there *was* ever a true story behind *Caraboo*, its bones are slowly broken under the weight of incidental traffic.

★

We expect what Mark Twain would call "stretchers" at Christmas time. This is the season when we gather round the fire to listen to tall tales and to be struck about the head by flying chestnuts.

The Pagemaster and *Never Ending Story III* are variations on the same chestnut. A little boy is buried into make-believe land, where a dose of educative fantasy strengthens him for the real-life battles back home. Alas, the fantasy scenarios in both films are dull enough to put the hero into a coma before he even contemplates the return journey.

In *The Pagemaster* Macaulay Culkin falls and knocks his head on a library's marble floor, thereby precipitating dreams about animated books. The voices of Whoopi Goldberg, Patrick Stewart, Leonard Nimoy and others prattle behind the dancing vellum-bound shapes as Culkin lives through cartoon digests of *Moby Dick, Treasure Island, Dr Jekyll And Mr Hyde* and *Gulliver's Travels*. These are witlessly slogged through in a 66-minute film that seems like 66 hours.

Culkin himself is showing grave signs of wear. Since *Home Alone* the boy has acted like a dazed demi-angel who has lost radio contact with Planet Earth. The instant-access mugging that had such charm in *H.A.* – "Macaulay, smile", "Macaulay, scream," "Macaulay, hit the burglars!" – has lost its verve. We know that Master C could never actually "act". But now he seems to have lost that peerless in-born talent, so post-modern in one so prepubescent, for parodying acting.

Another boy thespian adrift in imaginative hyper-space is Jason James Richter in *The Never Ending Story III*. What to say about a movie with tedium sewn into its very title? Young Bastien, our hero, is now a Los Angeles schoolboy apparently living on the same doughnut diet as Phoebe Cates. Persecuted by bullies, the plump-cheeked lad takes refuge in a library, where on opening the eponymous folklore tome he is magicked back into the land of "Fantasia". Luck-dragons; princesses; Tony Robinson as a gnome; and mile on mile of Christmas grotto decor.

We would like to say that all plot resemblances between this film and *The Pagemaster* are coincidental. Perhaps so. But the shared library settings hint at a Western cinema suddenly becoming alarmingly pedagogic about reading. Note the posters of famous film stars urging "Read" on the walls of the *Never-Ending* library and the parade of nudging book titles on the shelves of *The Pagemaster*.

But Hollywood never quite manages to heave itself up into high culture. Among the books flaunting their spines at Master Culkin are *Ten Little Indians* and *The Haunting*: giveaway-lowbrow titles, which also happen to be the titles by which the movies not the novels were known. Popular cinema may

Camp gobstopper-cheeked naughtiness: John Sessions wearing Mikado cast-offs and Phoebe Cates in search of doughnuts in 'Princess Caraboo'

be making one of its periodic bids to turn from poacher to gamekeeper, but apparently it can still only recognise stolen game.

In a week of bizarre cross-referencing, all we need now is another film starring Master Culkin, hinting at Hollywood's affair with high culture and containing a plot poised between fantasy and reality.

Abracadabra: *The Nutcracker*. George Balanchine's version of the Tchaikovsky ballet has been filmed, with Macaulay as Drosselmeyer's nephew. This riot of sound and colour, directed by Emile Ardolino (*Dirty Dancing*), was created some time ago. This explains why Culkin is in angelic prime, capering through his role with all the hammy wonder he brought to *Home Alone*. (He actually was a ballet student before being captured by Tinseltown).

Lovely sets; luscious music; worth a Christmas outing. We wish we could speak thus of *Chasing The Deer*. The good news is that this British film was heroically financed by small investors: a literal army of them, who having handed over their wallets then kitted themselves out in 1740s battle dress to play extras in Graham Holloway's mini-epic about the Jacobite wars.

Now the bad news. The combat scenes play like one of those Monty Python battle sketches in which obscure women's guilds, having selected a patch of mud, used to hit each other over the head with handbags. Between battles, the screen is cleared for the actors to stand in uncertain lighting mouthing self-destruct dialogue. (Sample conversation-stopper: "Then there is the episcopalian dimension . . .") Ten points for financial initiative, one and a half for creative result.

Only The Strong will appeal to only the barmy. Ninety minutes of the Brazilian martial art called *capoeira*, which to the untrained eye looks like breakdancing with violence. Sheldon Lettich directs. Someone called Mark Dacascos stars. Avoid.

Peter Mayes (left) as the old Bolshevik Antedilluvianovich Prelapsarianov, with Peter Bayliss Alastair Muir

Theatre/Alastair Macaulay

Tony Kushner's 'Slavs!'

Not only does the playwright Tony Kushner take on the most difficult themes of the era we live in, he also links them together. In his new 90-minute *Slavs! (Thinking About the Longstanding Problems of Virtue and Happiness)*, as in his widely-acclaimed two-part *Angels in America*, he somehow yokes the collapse of Soviet communism to the new prominence of homosexuality and a great deal else besides. And he manages to show the full seriousness of the situation he is presenting while relieving it with humour and a range of different characters. The sheer scope of his ambition is refreshing.

Yet to my mind Kushner is a lightweight. For all its massive historical, political, socio-economic, psychosexual and metaphysical range, I never felt that *Angels in America* was any larger in spirit than a soap opera, albeit vivid and touching and entertaining. (My reaction did not change even when I had seen productions on both sides of the Atlantic).

Slavs! is not soap-opera but satire. It does not flit between disparate narrative threads, as did *Angels in America*, and it has a less gossipy concern with what will happen next to whom. But here again his characters have both the vitality and the shallowness of cartoons, and here again he interconnects them in a way that rings hollow. We see that he has assembled them to illustrate strategically the contrasting symptoms of the State of Things Today.

Thus the alcoholic and nihilistic Katherina Sesafina Gleb, a warden of the Pan-Soviet archive (guarding the bottled brains of Lenin and other excomrades) in 1985 (Act Two), is here the lesbian girlfriend of socialist Doctor Bonfila Bezhukhovna Bonch-Bruevich, who in 1992 (Act Three) reveals the disastrous medical effects of Russian nuclear and chemical pollution upon Siberia and elsewhere. Lesbians, alcoholism, Leninism, socialism, pollution, medicine, the past, the future: yes, what a nexus! And how perverse that, for all the vehemence Kushner gives these characters, he cannot give either of them much substance.

Slavs! begins with the kind of hilarious stroke that we expect to find not in a play but in TV satire. Two Muscovite street-cleaners – brushing away the snow as they talk – are talking to each other, in lengthy and perfect sentences, of what political conclusions to draw from studying history from Marx and Engels. Peculiar, however, is the way Kushner keeps this joke going throughout the play.

It would be hard to make a better case for this British premiere of the play than is being made at the Hampstead Theatre, where Matthew Lloyd directs a generally superb cast. Design, by Ultz, is economical and effective. Lloyd keeps Kushner's satiric tone keenly to the fore while stressing humanity where he can.

Imelda Staunton's performance is more real than the words she speaks. She shows us the quiet, caring, troubled mind and nervous system of the lesbian Doctor Bonch-Bruevich. A wonderful actress. Annette Badland is just as fine as Mrs Shastlivyi Domik, blasting with great sincerity through an oration that starts forcefully and climbs in intensity from there.

Paul Jesson is excellent as Ippolite Ippopolitovich Popolitipov, a Soviet official who has the misfortune to be in love with the same woman as Dr Bonch-Bruevich. Peter Copley and Richard Mayes are first-rate as Aleksii Antedilluvianovich Prelapsarianov (the world's oldest Bolshevik) and Serge Esmereldovich Upgobkin. Ron Cook has to play Yegor Tremens Rodent, the kind of weak character whom Kushner needs in his plays so that every more right-thinking character can worst him in argument. Only Aisling O'Sullivan lets the side down as the alcoholic lesbian Katherina Gleb. Presence and force, sure, but no coherent detail. (I never believed in her alcoholism.) A cast like this should reach the West End; a play like *Slavs!* should not.

At the Hampstead Theatre, NW3.

Recital

András Schiff

On Sunday, András Schiff played Bach, Bartók and Beethoven at the Barbican – in that order. The second half was reserved for the "Hammerklavier" Sonata; earlier, Bartók's piano sonata snapped at the heels of Bach's Fourth Partita.

The Partita was exquisitely performed. I used to find Schiff's Bach over-jewelled sometimes, but nowadays he strikes a lovely balance between grace and rigorous clarity. His Overture here was resplendent, the Aria deeply meditated, the final Gigue a dazzling tour de force: altogether a delight to hear.

With Schiff the dance-movements in the Partitas sound more like contrapuntal character-pieces, individuated by expression rather than by strongly contrasted rhythms. At the risk of gilding the lily, I think he might remember the dance a little more often. In the Bartók sonata there was no sense of a stamping-dance in the first movement, nor much popular lilt in the last. Schiff's keyboard style in Bach (digital, linear, parsimonious with the pedal) was carried over to Bartók, and the result – in a piece partly inspired by Stravinsky's *Rite* – felt brittle and bloodless, fleet without thrust.

In the grand first movement of the "Hammerklavier", it seemed that the breadth of Schiff's musical intelligence again risked compromise by light fingers and a hint of nervy tautness. By the Adagio, however, he had found his best stride: still light and under-pedalled, but soberly penetrating and perfectly sustained. The audience was held rapt. The concluding fugue, much of it taken at heroically reckless speed, was cogent and triumphant.

David Murray

Arts Council bales out the beleaguered

Lower ticket prices for performances of contemporary opera at Covent Garden; financial life-lines for the beleaguered regional orchestras and theatres; more English touring by the National Theatre and the RSC; and no grant for KOSH, the dance company: these are the main decisions from the Arts Council of England yesterday as it announced the carve up of its 1995-96 grant.

The council unexpectedly received an extra £5.1m in the Budget, a rise of 2.75 per cent to £191.1m. It had been told to plan on standstill funding and had passed the same message to its clients. In the event, that is just what the majority of grant-aided arts companies can expect next year: frozen subsidy. The additional money has been used to ensure that few, if any, companies go under before lottery funding starts to come through in April.

The five regional orchestras and 16 theatres, including those in Farnham, Birmingham, Salisbury, Harrogate and Cheltenham, were facing worryingly high deficits. The council has decided to give the orchestras an additional £450,000 between them (on condition that they match this sum by their own efforts) while the theatres will share £565,000. The money comes with the understanding that they must sort themselves out financially once and for all.

Some national companies have been given special treatment. Hard pressed ENO is getting £300,000 more, at £11.955m, to invest in new productions, while Opera North is baled out with £200,000 more, to £4.834m. English National Ballet is near breaking point and has had its grant raised by £300,000 to £3.9m while Northern Ballet Theatre gets £125,000 extra at £1.225m.

High seat prices at Covent Garden are a perpetual worry. The council cannot afford to increase its across the board subsidy but is advancing another £300,000, making £8.8m, to ensure that the Royal Opera can reduce prices to help fill seats for contemporary opera.

The London orchestras face a difficult future: two, the LSO and the LPO, are on frozen grants while the RPO and the Philharmonia must make do with just £28,000 more each to help their regional work in Nottingham and Bedford. The KOSH loses its grant for artistic reasons, but can apply for touring money. In contrast DV8, the Place and Dance Umbrella get sizeable lifts in subsidy, while Royal Ballet receives £100,000 more, at just over £6m, to be invested in choreography.

The secretary general of the council, Mary Allen, said yesterday "I sincerely hope that no one now goes to the wall." Prior consultation suggests that most companies are happy. And with the council lottery fund growing to £9m in just three weeks, the assumption is that any arts company in a parlous state will have put in a well argued bid for some of this cash.

Antony Thorncroft

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERTS
Het Concertgebouw Tel: (020) 671 8345
● Philippe Herreweghe: with the Freiberger Barockorchestra and the Collegium Vocale Gent conducts Bach at 8.15 pm; Dec 20, 22

■ BARCELONA

GALLERIES
Fundació "la Caixa" Tel: (93) 404 60 73
● The Austrian Vision: a selection of 17 Austrian artists from three generations that represent the different models and main aesthetic positions adopted by Austrian artists over the last 20 years; to Jan 22

■ BERLIN

CONCERTS
Philharmonie Tel:(030) 2548 8132
● Berlin Philharmonic Orchestra: conducted by Claudio Abbado and with soloist Maurizio Pollini plays Brahms and Mussorgsky at 8 pm; Dec 15, 16, 19, 20, 21, 30

OPERA/BALLET
Deutsche Oper Tel: (030) 3 41 92 49
● Siegfried: by Wagner. Conductor Horst Stein, production by Götz Friedrich at 5.30 pm; Dec 27
Staatsoper Unter den Linden Tel: (030) 2 00 4762
● Die Verurteilung des Lukullus: by Paul Dessau. Conductor Hirsch, production by Berghaus at 8 pm; Dec 15, 18 (3 pm)
● Die Zauberflöte: by Mozart. Conductor Daniel Berenboim, production by August Everding at 7 pm; Dec 20, 23, 25, 28
● Dornröschen: by Tchaikovsky. Conducted by Stolze, choreographed by Nureyev at 7 pm; Dec 26, 27
● La Traviata: by Verdi. Conducted by Rizzi, production by Kirst. In Italian at 7 pm; Dec 17

■ BRUSSELS

CONCERTS
Philharmonique de Bruxelles Tel: (02) 507 84 34
● András Schiff: pianist, plays Bach, Reger, Handel and Brahms at 8 pm; Dec 19
● Royal Concertgebouw Orchestra: with pianist Evgeny Kissin and conducted by Sir Georg Solti, plays Beethoven, Bartok and Kodály at 8 pm; Dec 17

■ LONDON

CONCERTS
Barbican Tel: (071) 638 8891
● Royal Philharmonic Orchestra: Christmas concert with conductor Owain Arwel Hughes at 7.30 pm; Dec 20, 26
● The Dream of Gerontius: by Elgar. The London Symphony Orchestra with mezzo-soprano Anne Sofie Von Otter conducted by Sir Colin Davis at 7.30 pm; Dec 15
Festival Hall Tel: (071) 928 8800
● International Series: The London Philharmonic conducted by Bernard Haitink plays Berlioz (Overture, Benvenuto Cellini), Ravel (Mother Goose) and Vaughan Williams (Symphony No.5) at 7.30 pm; Dec 15
OPERA/BALLET
English National Opera Tel: (071) 632 8300
● Figaro's Wedding: in house debut for conductor Derrick Inouye at 7 pm; Dec 15, 17
● Khovanshchina: new production of Mussorgsky's opera. Director Francesca Zambello at 6.30 pm; Dec 16
Festival Hall Tel: (071) 928 8800
● The Nutcracker: by Tchaikovsky. English National Ballet and its Orchestra choreographed by Ben Stevenson at 7.30 pm; from Dec 21 to Jan 2 (Not Sun)
Royal Opera House Tel: 071 340 4000
● Ashton Remembered: celebration of the Royal Ballet founder choreographer Fredrick Ashton. Includes pieces by Mendelssohn, Offenbach, Massenet and Walton at 7.30 pm; Dec 15, 17 (2 pm)
● Cinderella: music by Prokofiev. Created by Fredrick Ashton in 1948, this was the first full-length ballet by an English choreographer at 7.30 pm; Dec 23 (2 pm) , 26 (2 pm) , 27, 30
● La Traviata: by Verdi. A new production by Richard Eyre. Georg Solti conducts for the first five performances, then Phillipe Auguin. In Italian with English surtitles at 7.30 pm; Dec 16, 19
● The Sleeping Beauty: a new production of Tchaikovsky's ballet. Produced by Anthony Dowell, set designed by Maria Bjornson at 7.30 pm; Dec 20 (2 pm) , 21, 22, 28
THEATRE
Barbican Tel: (071) 638 8891
● New England: World premiere of Richard Nelson's new play. No performance 12-15th Dec., otherwise at 7.15 pm; to Dec 29 (Not Sun)
National, Lyttelton Tel: (071) 928 2252
● Out of a House Walked a Man: by Daniil Kharms. A Royal National Theatre and Theatre de Complicite co-production of a collection of musical scenes by the Russian absurdist writer at 7.30 pm; Dec 23, 26, 27
● The Children's Hour: by Lillian Hellman, directed by Howard Davies at 7.30 pm; Dec 15, 16, 17 (2.15 pm) , 19, 28, 29 (2.15 pm) , 30

■ MUNICH

GALLERIES
Kunsthalle der Hypo-Kulturstiftung
● Paris-Belle Epoque: An evocation of the period from 1880 to 1910, with paintings, drawings, posters, photographs, glass and furniture; from Dec 16 to Feb 26

■ NEW YORK

GALLERIES
Whitney Museum
● Franz Kline: Black and White 1950-61: major Abstract Expressionist works from the last decade of the artist's life; from Dec 16 to Mar 12
OPERA/BALLET
Metropolitan Tel: (212) 362 6000
● Die Fledermaus: by J. Strauss. Sung in German with English dialogue at 8 pm; Dec 22, 29
● Don Giovanni: by Mozart, sung in Italian at 8 pm; Dec 16, 20, 24 (1.30 pm)
● Madama Butterfly: by Puccini at 8 pm; Dec 17, 21, 27, 30
● Peter Grimes: by Britten. English at 8 pm; Dec 15, 19, 23, 28
● Rigoletto: by Verdi at 8 pm; Dec 17

■ PARIS

CONCERTS
Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24
● French National Orchestra: Jeffrey Tate conducts Beethoven Symphonies Nos. 2 and 3 at 8 pm; Dec 15, 17
GALLERIES
Louvre Tel: (1) 42 60 39 26
● British Art in French Public Collections: paintings by Gainsborough, Reynolds, Constable, Lawrence and Turner. Closed Tue.; to Dec 19
OPERA/BALLET
Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24
● Casse-noisette: Tchaikovsky's ballet performed by the Kirov ballet company, St. Petersberg at 8.30 pm; Dec 22, 23, 25, 26, 27, 28, 29, 30
● La Fontaine de Bakchisaraï: ballet by the Kirov company, St. Petersberg at 8.30 pm; Dec 20, 21

■ TURIN

OPERA/BALLET
Teatro Regio Tel: 011 8815 241
● Lo Schiaccianoci: ballet in three parts by Tchaikovsky. Performed by the Kirov company, St Petersburg. Sun mat only at 3 pm; to Dec 18 (Not Mon)

■ WASHINGTON

CONCERTS
Kennedy Centre Tel: (202) 467 4600
● National Symphony Orchestra: perform Handel's Messiah. With conductor Peter Bay, soprano Janice Chandler and mezzo-soprano Stephanie Blythe at 8.30 pm; Dec 16, 17, 18, 19
GALLERIES
National Gallery Tel:(202) 737 4215
● Italian Renaissance Architecture: Brunelleschi, Sangallo, Michelangelo, the Cathedrals of Florence, Pavia and St. Peter's; from Dec 18 to Mar 19
Sackler Tel: (202) 357 2700
● Paintings from Shiraz: the arts of the Persian book created in the city of Shiraz during the 14th -16th century; from Dec 24 to Sep 24
OPERA/BALLET
Kennedy Centre Tel: (202) 467 4600
● The Nutcracker: music by Tchaikovsky. Presented by the Joffrey Ballet, choreographed by Robert Joffrey. No show Dec. 12th, mats at 2pm otherwise at 8 pm; to Dec 17
THEATRE
Gunston II Tel: (703) 418 4808
● An Evening with Tom Stoppard: a series of three one-act plays by the British playwright presented by the Washington Shakespeare Company at 8 pm; to Dec 17

WORLD SERVICE

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NBC/Super Channel: FT Reports 1230
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SUNDAY
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Breaking up is hard to do

So you thought that Canada was a stable, peaceful place where civility and compromise were the order of the day? Think again, advises Mr Lansing Lamont.

BOOK REVIEW

In this provocative book, Mr Lamont raises the spectre of bloody riots on the streets of Montreal, disaffected aboriginals blowing up one of North America's biggest hydro-electric projects, and Quebec gunboats intercepting US tankers on the St Lawrence River – all within the next seven or eight years.

The unrest would be the precursor to the ineluctable disintegration of the world's second biggest country. Much of what is now English-speaking Canada would end up as part of the US, leaving a newly-independent Quebec as a lonely – and increasingly impoverished – outpost of French language and culture.

Mr Lamont, a former correspondent for Time magazine and a frequent visitor to Canada, suggests that foreigners have for too long looked at Canada from the wrong angle.

Instead of puzzling over why such a nation apparently blessed with such rich natural and human resources should want to tear itself apart, the real question is how Canada has managed to stay in one piece for 127 years.

Mr Lamont says the chasm between Canada's French and English is as deep as between Ireland's Catholics and Protestants. But he identifies many other tensions that threaten to tear apart the national fabric.

The 5m inhabitants of the prairie provinces of Alberta, Saskatchewan and Manitoba "carry on their shoulders a chip the size of Labrador. They have all the goodies, but somehow the benefits always seem to land in the laps of rapacious easterners."

The 10 provinces are forever trying to wrest powers from the federal government in Ottawa. Aboriginal communities have become increasingly militant.

The pervasive influence of US television is weakening Canada's fragile indigenous culture. Meanwhile, immigrant groups are encouraged by a policy of "multi-culturalism" to make the preservation of their own identities a higher priority than a united country.

Economic forces are also melting the glue that has held Canada together. The 1989 free trade agreement with the US has focused Canadian business on markets and competitors to the south – a trend exacerbated by internal trade barriers between the provinces.

Towering debt and budget deficits channel a growing proportion of government revenues to foreign creditors, limiting the ability of Ottawa and the provinces to meet their own citizens' demands.

"At its birth as a British dominion in 1867," Mr Lamont concludes, "Canada's existence was predicated on its fear of annexation by the United States; its pride and security in belonging to the mightiest empire since Rome's; and the need for a protected economy to ward off its omnipotent southern neighbour. As none of these reasons apply any longer, and having no new ideological underpinnings to help validate its national purpose, Canada is becoming increasingly vulnerable to fissure."

In the second section of *Breakup*, Mr Lamont makes "an informed surmise of what could happen in the worst circumstances" as the fissures widen. He postulates a last-ditch National Commission to Rebuild Canada in 1996, the failure of which leads to Quebec's stormy unilateral declaration of independence four years later. The four Atlantic provinces, cut off from the rest of Canada by the secession, would have little choice but to seek a future with the US. The much richer western provinces would also tighten their already-close links with the US north west.

Mr Lamont's disquieting scenario may well come to pass. The success of regional parties from Quebec and western Canada in last year's general election is a reminder that the centre is an unrewarding place to be in politics when grievances fill the air.

Quebeckers elected a separatist government in September. Earlier this month, it unveiled plans to draw up a new constitution early in the New Year as a prelude to an independence referendum. The province's aboriginal communities have vowed to resist the drive towards sovereignty. Many western Canadians wish Quebec good riddance. Can it be long before even hotter heads come to the fore?

Don't write Canada off just yet. Mr Lamont researched much of his book at a time when, even by recent Canadian standards, the national mood was unusually grumpy.

The recession was at its deepest. Voters had rejected the Charlottetown Accord, an effort by politicians to write a constitution that would accommodate the demands of Quebec as well as, in Mr Lamont's words, every other special interest group except left-handed dentists.

Although almost every page of Mr Lamont's book contains a good reason for Canada to break up, it also gives some cause for hope.

He notes, for instance, that Quebeckers are "still essentially a cautious people used to walking on ice in winter. That ... suggests that they will not make the final leap to independence." Recent opinion polls indicate that only about 40 per cent of Quebeckers support independence.

The economy is enjoying a robust recovery and the mood in the country at large has mellowed appreciably since Mr Jean Chrétien's Liberals took office just over a year ago.

Moreover, for all their complaints, most Canadians would rather see their country survive than be shattered apart or absorbed by their southern neighbour. It is still possible that Canada will muddle through in a typically Canadian way – not united but also not irrevocably split.

Bernard Simon

BREAKUP – The Coming End of Canada and the Stakes for America
By Lansing Lamont
W. W. Norton and Co,
£19.95/$29.95, 267 pages

ECONOMIC VIEWPOINT

Time to know what you pay for

By Samuel Brittan

The British government's defeat over VAT on domestic energy is of more than just temporary political interest. For it brings to the surface how very muddled the public is on the whole subject of spending and taxes. Opinion poll after opinion poll shows that voters seem to want more publicly provided, or financed, services. Yet they rear up against any attempts to pay for these services by spreading the tax net more widely.

An idea of the public mood emerges from one poll in which nearly 50 per cent replied that taxes on high incomes were too low, or "much too low". Only 6 per cent thought that taxes on middle incomes were too low and hardly anyone thought that of taxes on low incomes. Yet the overwhelming majority of those polled regarded themselves as either middle or low income. Less than 3 per cent regarded themselves as receiving high incomes. On this evidence, there are just too few rich to soak.

But the real drawbacks of allocating resources through competitive elections rather than competitive markets go beyond these contradictions. They can be summed up in the jargon phrase "full line supply". When a buyer makes purchases in a supermarket, he or she can decide on how much he or she wishes to spend and on what items. But when it comes to public goods like defence, every citizen has to have the same amount. Worse than that: the voter has to decide between two or three bundles of vague policies covering all issues, none of which may express his or her preferences, but which he or she has to take or leave as a whole.

Despite the drawbacks, some services are better financed collectively than by relying on the private marketplace alone. One way of introducing a little more coherence might be by some form of hypothecated or earmarked taxes, designated for specific public services. There can, but need not, be a close connection between the nature of the tax and the service for which it pays.

A historical example of an earmarked tax was "Ship Money", levied on English seaports and coastal regions to finance the Royal Navy. When Charles I revived the tax in 1634-38, he started a chain of events which contributed to the English civil war, his own beheading and a period of republican government. But that was because the levies were extended to inland regions and Parliament was not consulted. Earmarked taxes that are carefully and sensitively applied may still be a lesser evil than today's habit of putting all official revenues into a pool to be allocated at the government's discretion.

UK government revenues and expenditure

General government receipts 1993-94	£bn	% of total
Inland Revenue		
Income tax	58.4	25.3
Corporation tax	14.9	6.5
Other Inland Revenue	4.1	1.8
Customs & Excise		
VAT	38.9	16.9
Fuel duties	12.5	5.4
Tobacco duties	6.5	2.8
Beer, wine and spirits duties	5.2	2.3
Other Customs & Excise	3.3	1.4
Vehicle excise duties	3.6	1.6
Business rates	12.6	5.5
Other taxes and royalties	6.4	2.8
Social security contributions	38.7	16.8
Council tax	8.5	3.7
Other receipts	17.1	7.4
Total	230.8	100.0

General government expenditure* 1993-94	£bn	% of total
Social security	87.1	30.4
Health	43.6	15.2
Education	33.7	11.8
Defence	23.4	8.2
Law and order	14.9	5.2
Transport	10.5	3.7
Environmental services	9.8	3.4
Other functions	33.2	11.6
General gov't debt interest	19.9	6.9
Other	10.6	3.7
Total	286.4	100.0

* Excluding privatisation proceeds

Source: Treasury/FT, Keith Fray

Earmarked taxes have begun to receive support from different parts of the political spectrum, for instance the UK left-of-centre think-tank, Demos, and the free-market Institute for Economic Affairs. Hypothecated taxes are already frequent in the US, where they are said to finance about half of local spending. Many of the uses which Demos envisages for earmarking are primarily local: for example, expenditure on the London Underground, city nursery places, or a town's bid for the Olympics. For such applications to work effectively in the UK, councils would have to acquire sources of revenue sufficient to finance their own budgets.

Meanwhile, there is quite a lot than can be done at a national level. Earmarked taxes cannot remove all the defects of state provision. They cannot enable different voters to have different military budgets or different sized health services to suit their individual preferences. But they can at least make sure that the services come with a price tag and that expenditure is representative of what the middle of the road taxpayer is prepared to finance.

An example is public expenditure on health. This was running in the UK in 1993-94 (the last year for which a functional breakdown of public spending was available) at almost £44bn – slightly more than the yield of VAT. Why not then earmark the proceeds of VAT for the National Health Service and let voters put their money where their mouths are? If they desire ever more NHS expenditure, they should be ready to see the VAT rate creep up from 17½ to 18, 19, 20 per cent and however much more it takes. Eventually even the belligerent uniformed nurses who turn up at every televised election brains trust with their demands for "more, more, more" will begin to be heard more critically.

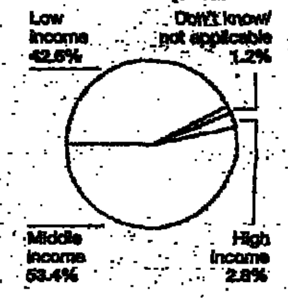
Finance ministries have opposed hypothecated taxation mainly because it reduces their own power. They can however call in aid well-known abuses of hypothecation. There have been raids on supposedly hypothecated revenues. The UK Road Fund used to be diverted to finance expenditure of no benefit to motorists. The opposite distortion arises when general revenues are diverted to top up hypothecated taxes. Until 1989 UK National Insurance contributions were supplemented by an Exchequer contribution.

British tax attitudes

Views on taxes borne by:

(%)	High incomes	Middle incomes	Low incomes
Much too high	3.6	2.7	26.6
Too high	9.5	24.8	48.5
About right	34.7	64.0	19.2
Too low	40.8	6.0	1.8
Much too low	8.9	0.1	0.7
Don't know/ not applicable	2.7	2.3	2.2

Self-description of respondents



Source: Fiscal studies, Nov 1994

Another danger is tokenism, such as the extra 1p on the income tax which the Liberal Democrats wanted to spend on education in the 1992 election. Without having to bear a known tax for existing educational expenditure, voters are not in a good position to judge whether they want to spend more or less.

The greatest obstacle to successful earmarking is inadequate public knowledge. In most countries half or more of social security taxes are levied on employers. Employees still have to pay in the end, as these taxes are passed back in lower wages or passed forward in higher prices. As a result, contributions cannot be used to put a price tag on increases in social expenditure, such as pensions or sickness benefit.

Earmarking is indeed easier for indirect taxes on goods and services. But some progress is still possible on the direct side. Income tax plus *employee* national insurance contributions amounted in the UK in 1993-94 to nearly £80bn. This was slightly less than the bill for social security. Why not then earmark the whole of these personal tax receipts for a Redistribution Fund from which all benefits, whether contributory or not, would be paid? Gradually the gross totals of both tax and benefits could be reduced as Inland Revenue computerisation allowed some optional netting off in household taxes and benefits; and an approach could be made to a negative income tax.

A study of earmarking by Margaret Wilkinson in the November issue of Fiscal Studies* concludes that the snags are so great that earmarking is, except on a very small scale, a snare and a delusion. She ends: "Governments must weigh the alternatives, and determine priorities with full knowledge of the complexities that are involved, and then be accountable to the electorate for them." But it is precisely this unrealistic demand for *omniscience* by governments which convinces some of us that there must be a better way.

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LETTERS TO THE EDITOR

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Monetary framework needs more clarity

From Mr Malcolm Bruce MP.

Sir, I very much welcome the call in your leader article (December 13) for a new target range for UK inflation. Indeed I made a similar proposal in our party's alternative Budget two weeks ago, suggesting that the inflation target be reduced to 0-3 per cent.

The present inflation target is something of a muddle, with a target rage of 1-2.5 per cent within a broader target of 1-4 per cent. There is now a need to reinforce the credibility of the monetary framework by making the inflation target clearer and singular, and by addressing some of the other defects which you identify. This includes the narrowness of the 1-2.5 per cent range, which is in practical and operational terms far too restrictive.

Additionally, there is no explicit target beyond 1997, though the Bank of England is apparently working on an assumption of 0-2 per cent. This is a significant weakness given that monetary policy works with long lags, so that it is vital to know well in advance where one is steering for. As you note, it is also particularly important to make the inflation targets clear beyond 1997, as this will cover the post-election period, possibly with a non-Conservative government in office. This would be absolutely the wrong time to have any confusion about the nature of the UK's commitment to low inflation.

I believe that the introduction of inflation targets has been a promising evolution in UK monetary policy. There is now a need, however, to make the monetary framework clearer and less open to future abuse and confusion.

This should serve, as you suggest, to build a cross-party consensus around low inflation, which could not only reduce the price of long-term British government borrowing, but could lock the UK into permanently low levels of inflation.

Malcolm Bruce,
Liberal Democrat Treasury spokesman,
House of Commons,
London SW1A 0AA

Answer lies in question

From Mr Mark Griffith.

Sir, Lord Plumb is right (Letters, December 8) when, commenting on a survey of the attitudes to the European Union in the UK and Germany, he says that how questions are framed in polls on the EU can affect the result. However, this usually works for, not against, the EU lobby.

Several countries would not be in the association if referendum questions had been worded with Yes for staying out and No for going in. Pro-Union politicians are quick enough to use what he calls "popular bewilderment" when it suits them.

Confused voters choosing the friendly, positive-sounding Yes are called bold and intelligent when they vote *for* the institution that gives Lord Plumb purpose, the European Union.

Mark Griffith,
MTI-Hungarian News Agency,
Budapest,
Hungary

Hard to catch a Eurostar

From Dr Caroline Jackson MEP.

Sir, Your Business Travel section reported ("In time for Eurostar", December 12) that a passenger arriving less than 20 minutes before the departure of the Eurostar train from Waterloo was barred access on the grounds that security checks could not be carried out.

The arrangements surrounding the existing Eurostar service are so bizarre and haphazard that I begin to wonder whether it is not being run by a group of fifth columnists in the pay of the ferry companies. I arrived 10 minutes before the Waterloo-Brussels departure the other day and was waved through with no security checks on my baggage whatever. When I had phoned Eurostar the previous day – with great difficulty because the line was constantly engaged – I was told that the train was very full. In fact, it was virtually empty, both ways.

Meanwhile, at the Gare du Midi in Brussels, the Belgians still insist on static passport checks and their station is like an *unfinished* morgue.

Getting a ticket at all in the UK requires reserves of perseverance. Not everybody, especially business travellers, can plan weeks or even days in advance. I tried for a ticket for the next day's Eurostar at Swindon and Didcot, both important London feeder stations, and was told that they could not sell me one because they did not have the necessary computer equipment. At Didcot they believe that it will be two years before they get it. I was advised to try Reading, Bath or Bristol.

I have just rung Eurostar again – to get a recorded announcement that the office is closed because of a fire drill. No alternative arrangement for booking tickets seems to be in place.

Do they want passengers at all?

Caroline Jackson,
MEP for Wiltshire North and Bath,
15 Bath Road, Swindon,
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Rise in duty no answer

From Mr Hugh Morison.

Sir, Many commentators and City opinion-formers seem to have welcomed the chancellor's decision to raise excise duties on spirits and other products, on the grounds that this would close the gap left in his Budget by the vote against raising VAT on fuel from 8 to 17.5 per cent.

The evidence of the past few years suggests, however, that Kenneth Clarke, the chancellor, will fail in his objective; in the last year that followed an increase in excise duty (1992-93) the chancellor's receipts from excise duty on spirits fell by £80m. In the following year, after Mr Clarke and his predecessor had frozen the rate of duty on spirits, Treasury receipts actually grew by £46m.

This clear evidence of diminishing returns points to the likelihood that last week's 4 per cent rise will once again lead to a drop in revenue receipts.

Not only will the chancellor's action damage an important UK industry; not only will it weaken the industry's attempts to overcome discriminatory tax treatment in Europe and beyond; he has done all this in a desperate attempt to raise revenue which will not materialise.

The chancellor will find that this particular crock of gold is at the end of a very distant rainbow.

Hugh Morison,
director general,
The Scotch Whisky Association,
20 Atholl Crescent,
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Current dividend trend has damaging effects

From Mr Martin Simons.

Sir, The extraordinary rise in dividends declared by UK electricity generators and distributors, coupled with buy-backs of shares "which enhance returns for shareholders" (Company News, This Week: "Buy-backs set to enhance returns for shareholders", December 12) is a national disgrace.

The necessary profits and cash flows for the distribution bonanza have been, and continue to be, generated by duopoly suppliers using their muscle by overcharging private and industrial customers. The latter suffer from unnecessary cost pressure which inhibits investment and job creation.

The electricity industry continues to shed labour and past inefficiencies are now used to justify electrifying pay increases for directors. When will some influential spark realise that short-term electricity profit optimisation is doing immense damage, especially to energy-intensive sectors such as chemicals, glass, cement and heavy engineering?

Are French, German and Japanese electricity companies paying such high dividends and buying back shares? No, because they have some sense, not least for the common weal.

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FINANCIAL TIMES
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Thursday December 15 1994

Beyond the Troubles

There is a danger that the success of this week's investment conference in Northern Ireland will be measured in pounds and pence. The long list of aid pledges recorded over the past few days are welcome injections to the region, that will be easily spent. Yet the biggest obstacle to economic success in Ulster has never been a shortage of public funds. Rather, it has been a lack of confidence in the future, born of the Troubles, and shared by residents and foreign investors alike. Overcoming that lack of faith would be the true peace dividend. On that score alone, the conference may have made a lasting contribution to the region's future.

Delegates heard much of the tax and other incentives aimed at attracting inward investors to the province. But there are more fundamental attractions to a peaceful Northern Ireland. Property prices are the lowest in the UK, as are labour costs, and the workforce is well-educated. A few investors have already begun to exploit these benefits. But there will need to be many more if the economy is to rid itself of the distortions created by the last 25 years.

Economic activity is heavily skewed towards agriculture, declining industries and the public sector. None of these offers a very promising launch pad for peacetime growth. The prime minister, Mr John Major, has rightly promised that security expenditure savings will not be lost to the region altogether, but ploughed back into health and education spending. Altering the composition of public spending to favour teachers and doctors over policemen may create more public jobs than it destroys. Yet the long-term aim of subsidies from the centre - currently around half of the region's budget, or quarter of GDP - must now be to give people a better opportunity to fend for themselves in the private sector.

Over a third of the workforce is currently employed by the government. Even this degree of public job creation has not prevented the region from having the highest unemployment rate in the UK, with over half of the total being long-term unemployment. Joblessness afflicts Catholics particularly. Some 43 per cent of 20-60 year old Catholic men are currently without work, compared to a 26 per cent non-employment rate among Protestants.

Mr Major announced further measures to tackle the problem in yesterday's speech. But there is a strong case for doing more. Those at the periphery of the UK have long resented being used as guinea pigs for potentially unpopular new government policies. Using Northern Ireland as a testing ground for ambitious employment policies which went beyond the timid measures announced in last month's budget would make a welcome change. With luck, enhanced inward investment flows, tighter transport and other links with the south, and a better tourism trade will eventually provide jobs for the unemployed to go to. This week's conference may make employers take a look. The trick will be giving them the confidence to stay.

India on trial

Indians are not doomed to be poor. They are poor because of foolish policies. Unfortunately, the likely response to the defeats suffered by the Congress party in state elections will be precisely the wrong mixture of caution with profligacy. The prime minister deserves credit for initiating reform, but has failed to persuade the electorate of its benefits. Indeed he has barely tried.

India's politics has become a struggle over the redistribution of poverty. This can be seen in the resistance to reform of the labour market, in the opposition to privatisation of public enterprises, in the continued pressure for protection from imports, in the demands for affirmative action for "backward" castes, in the failure to charge properly for electricity and irrigation, in pressures for more public spending on food and fertiliser subsidies and in the widespread exemptions from taxation.

The brilliantly executed response to India's economic crisis of 1991 offered the country a chance to break out of the zero-sum trap into which politics had led. Unfortunately, reform has not gone far or fast enough. In addition, fiscal stabilisation more or less stopped after 1992-93. The fiscal deficit is expected to be 6 per cent of gross domestic product this year and may rise sharply again next year, in response to the electoral defeats. Yet even this year's level is almost certainly unsustainable in the long run.

The pity of it all is that the reform agenda is beneficial to huge chunks of the electorate. The elimination of controls has already reduced corruption and, zealously pursued, could reduce it further. The beneficiaries of industrial protection, over-employment in public enterprises and the failure to allow plant closures are a small minority of the labour force. Equally, trade liberalisation should favour agricultural output. While subsidised power, water and fertilisers do benefit many farmers, the big gainers among them are certainly not the rural poor.

The danger now is that reform will stand still, while fiscal stabilisation starts to go backwards. If so, the economic momentum built up over the last three years, though probably big enough to produce growth at 5-6 per cent, may well prove insufficient for anything more. It could even reverse. The tragedy is that India desperately needs - and could achieve - an east Asian level of economic performance.

While India was capable of fiscal stability, in the 1960s and 1970s, its economy was shackled by controls. Now that controls are being lifted, it cannot sustain fiscal stability. Worse, after these elections, Mr Rao's instinct will be to go slow on reform and backslide on stabilisation. It is a politically attractive strategy, but the wrong one. The only solid platform for political success and even stability lies in the promise of a better life for all. India's hope lies in the achievement of East Asian growth, not in the false allure of Latin American populism.

High wire act

The announcement yesterday by Trafalgar House, the conglomerate, that it may bid for Northern Electric, one of the UK regional electricity companies (recs), may mark the start of the biggest shake-up in electricity supply and distribution since the 1990 privatisation. The bid partly reflects the industry's growing financial health, and is likely to be followed by others. But extensive consolidation will present regulators with tough problems as they struggle to promote greater competition.

News of the possible bid has emerged as the industry enters a new lap of its journey towards liberalisation. The government's "golden share" in the 12 recs, preventing takeover, expires at the end of March. New price controls will start to bite in April, and the market will be opened up to full competition in 1998. Meanwhile Offer, the industry regulator, is trying to increase competition in generation.

Despite all this uncertainty, Trafalgar House is right that there are attractions in taking over a rec. Even after recent cost-cutting, there are more jobs to be shed. If recs merge with each other - or with regional water companies, another long-touted possible partnership - there could be large savings in administration and billing. Bidders will also be attracted by the recs' cash and future cash flow, although valuation is complicated by the present uncertainty over the value of the National Grid, in which recs hold shares.

It is less clear that Trafalgar House is the company to maximise the value of a rec; its record is indifferent, and its new management team unproven in its present configuration. The mooted bid, which may be partly motivated by the desire to extract tax gains from combining the two companies, also raises tough regulatory questions. Offer would be hard-pressed to ensure that the rec's profits are adequately ring-fenced from Trafalgar House's other activities. The regulator has already been forced to grapple with such problems, as the recs have diversified beyond electricity supply and distribution, but they would be compounded if a rec were subsumed within a much larger group.

The bid would not, on its own, raise questions for competition policy. But it sets the scene for a consolidation of the industry which could do so. The recs enjoy, in essence, regional natural monopolies in electricity distribution, while facing growing competition in supply from each other and from new entrants, including generators. However, the industry is still a long way from the regulator's dream of a fully competitive market in electricity supply. While a degree of consolidation among suppliers would not necessarily harm competition, such moves would need careful assessment by competition authorities, to ensure that the benefits of privatisation and liberalisation are not undermined.

Deceptive image of anonymity

Henning Schulte-Noelle, Allianz chairman, explains the insurer's strategy to **Andrew Fisher** and **Ralph Atkins**

Corporate might is not something about which senior executives at Allianz, Europe's largest insurance company, like to boast. They chuckle at the difficulty visitors have finding the group's Munich headquarters, with its anonymous postwar facade and small nameplate.

But this public image is increasingly deceptive. The company recently paid an estimated DM6.4bn ($4.1bn) to buy the direct insurance operations of Swiss Re, the world's second largest reinsurance company.

The deal will increase Allianz's premium income by about 20 per cent, from DM55.5bn last year. It will also take the company within striking distance of becoming the world's largest insurance company, toppling Nippon Life which had premium income equivalent to about DM90bn last year.

For Allianz's 52-year-old chairman, Mr Henning Schulte-Noelle, the prospect of global domination is not yet something to brag about. "I haven't really thought about that," he says. "It is not really a strategic objective."

One reason may be that Allianz is likely to be forced by anti-trust authorities to dispose of part of the Swiss Re package - the Vereinte/Magdeburger insurance group. Half the latter's annual premium income of about DM7bn comes from Germany's second largest private health insurer, Vereinigte Kranken, and Allianz already has a majority holding in the market leader, Deutsche Krankenversicherung.

Mr Schulte-Noelle expects a decision by the authorities "pretty soon" but says a forced disposal "has been a possibility we have had to keep in mind since the very beginning". Both German and foreign companies have expressed interest in buying Vereinte.

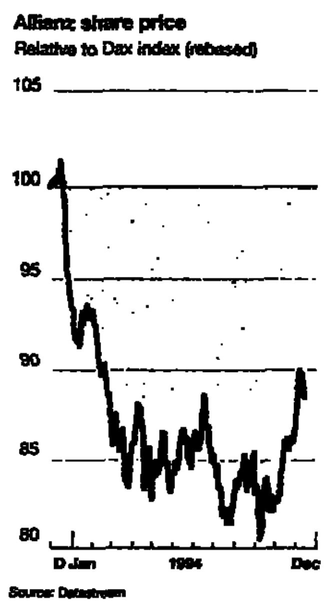
Another reason Allianz prefers not to boast about its size is that rapid international growth in the past decade has left it with some headaches.

One is Fireman's Fund, the US insurer Allianz acquired four years ago for $3.3bn which has performed below the industry average. Mr Schulte-Noelle defends the purchase, made under his predecessor, Mr Wolfgang Schieren. "We feel that Fireman's Fund was a good buy for us. The results have much improved over the years and the progress achieved would be even more visible with a market turn."

A second problem is Deutsche Versicherungs, the former state insurance monopoly in east Germany that Allianz acquired in 1990. The acquisition has so far cost the company DM2bn, and has yet to be profitable, despite rapid premium increases and a substantial restructuring to turn the operation into a

Allianz: heading for global domination

Henning Schulte-Noelle, chairman



Source: Datastream

Global insurers by total premiums, 1993

COMPANY	COUNTRY	$bn
Nippon Life	Japan	57.9
Allianz	Germany	49.3*
Dai-Ichi Life	Japan	40.3
Sumitomo Life	Japan	36.1
State Farm	US	32.5
UAP	France	26.8
Meiji Life	Japan	25.9
Prudential (US)	US	24.1
Metropolitan Life	US	19.5
Zurich	Switz	19.4
Asahi Life	Japan	19.2
Allstate	US	17.7
Axa	France	17.7
Mitsui Life	Japan	16.6
Munich Re	Germany	16.5
Yasuda Life	Japan	16.4
Generali	Italy	15.9
Prudential (UK)	UK	13.6
Swiss Re	Switz	12.4
ING	Neths	11.5
Tokyo Marine & Fire	Japan	11.9

*Assuming purchase of Swiss Re subsidiaries as of 1993 Source: RCW

modern insurance business.

Mr Schulte-Noelle expects Deutsche Versicherungs to move into profit in 1995, with a much reduced underwriting loss. However, the company has not yet built up the investment portfolio needed to provide the sort of income that bolsters results elsewhere in the group. In the long run, he expects to prove that the east German venture has enhanced shareholder value.

When Mr Schulte-Noelle took over the top job at Allianz in 1991, premium income had doubled in the previous five years. He admits there were good reasons for calling a halt to further acquisitions to allow a period of consolidation.

But, he says, Allianz could not ignore the opportunity offered by the Swiss Re deal. The company had long wanted to expand in Switzerland. With Swiss Re, it acquired insurance companies Elvia in Zurich and Lloyd Adriatico in Italy, as well as Vereinte/Magdeburger.

The search for growth opportunities continues, says Mr Schulte-Noelle. He wants to increase the company's share of the life market in the UK, where it owns Cornhill Insurance. He is also targeting the emerging markets of Asia and eastern Europe.

A forced disposal of Vereinte might be used to create other expansion opportunities says Mr Schulte-Noelle. If it has to be sold, he will seek a deal that fits with Allianz's long-term strategy - and not just maximise sale proceeds. "Price is of course the single most important criterion, but it could also be of importance to us that the buyer of Vereinte may have to offer something in terms of helping us in other markets."

But the Allianz chairman dismisses suggestions that the company would attempt to foil foreign companies entering the German market. Mr Schulte-Noelle says Allianz has already taken steps to defend itself from fiercer competition at home as the European Union deregulates the insurance market.

Germany will be among those affected most by EU directives which since July have allowed Europe's insurance companies to sell policies anywhere in the Union on the basis of regulations in their home state. Local controls on the wording of policies and on rates have also been removed.

In response, Allianz has reorganised the non-life side of its business into divisions serving three consumer groups - personal customers, small and medium-sized commercial business, and large industrial clients. The company is also preparing to adapt its products rapidly in response to changing demands. But Allianz is "not going to play marketing gimmicks just for sake of coming up with something new".

For instance, Mr Schulte-Noelle does not expect unit trust-linked life policies to become more popular, as in the UK. Germany's history, he says, means most customers put caution to the fore. "This may change because private wealth built up after the war is now being transferred to a new generation and people have more money to play with."

But for all the preparations Allianz has made to hold on to its home market share, Mr Schulte-Noelle does not foresee EU directives leading to a sudden influx of products designed in other countries. "I don't see any major development of cross-border selling of personal lines because insurance markets are essentially local markets. If you want to get a share of the cake you have to be a local competitor."

Similarly, he does not expect any immediate upset to traditional distribution channels. Under the new EU rules, he expects to see no less reliance on trained sales agents tied to selling Allianz products. "There is no authority any more checking products in advance and saying 'don't worry, this is a product that we have looked into and which you can trust'... Deregulation will rather strengthen the role of the captive sales organisation, such as we have, in coming years."

Thus Mr Schulte-Noelle does not expect direct telephone selling techniques, pioneered in the UK by Royal Bank of Scotland's Direct Line, to make substantial inroads into the German market. Soliciting customers by phone is anyway forbidden by the German courts.

That should give Allianz the opportunity of build on the success it and other German insurers have had in pushing up rates on motor and industrial policies. As the spate of car thefts that so disrupted the motor sector in recent years has become less alarming, underwriting results have been boosted further.

In turn, an improved performance in the German market should help ameliorate investors' fears about the short-term costs of an aggressive international acquisition strategy. Although Allianz shares have performed below the market average this year, Mr Schulte-Noelle says they have provided an annual average post-tax return of 17 per cent over 10 years against 10 per cent for the Dax index of leading shares listed in Frankfurt. To make the shares more attractive for smaller investors, the company intends to divide its shares - currently worth DM2,420 each, into smaller units.

There remain questions about the impact of Allianz's international strategy on the value of its shares. "There is a risk," says Nomura Equity Research, "that the Allianz earnings curve over the medium term will be unspectacular."

Last year, Allianz boosted pre-tax profits by 25 per cent to DM2bn, but this year's performance has been more sedate. Mr Schulte-Noelle says total underwriting losses this year will be below DM1bn after DM1.2bn in 1993. Investment earnings will be affected by the downturn on bond markets.

Shareholders may thus take some comfort from the group's disinclination to talk about becoming the world's biggest insurer. Mr Schulte-Noelle is setting his sights on quality rather than size - "the world's best, that is the objective I would prefer".

The looking glass view of Europe

PERSONAL VIEW

Almost everything that happens in the European Union is public knowledge within an hour or two. The European Commission in Brussels is one of the most open public services in the world and we all like it that way. It is therefore surprising to find that, recently, some commentators seem to see Europe not through the looking glass but through the distorting mirror. This applies particularly to what "Brussels" is alleged to be imposing on the European citizen.

A few facts. First, all significant decisions in the EU, with the exception of those relating to competition (for example state aids), are taken not by bureaucrats but by UK ministers and their colleagues in the Council of Ministers. The Commission proposes, the Council and the parliament decide. Recent Treaty changes have increased the parliament's control over the Commission. This is a genuinely democratic system.

The budget in the EU is fixed by the Council and the parliament. About 97.5 per cent of public expenditure in the EU is national expenditure by the member states. The Community budget represents about 2.5 per cent. It is subject to fixed limits on all main types of expenditure. That is why last year the Commission kept about 1,000 posts vacant because there was no money. When we underspend the budget, there is usually silence in the media. In 1994 we shall underspend the budget on agriculture by about £2.7bn.

Second, the European Commission is a lean machine. We could have taken a different, centralising approach and established a huge bureaucracy in Brussels to administer directly all grants and schemes. I am glad that this approach was not followed. There are many million national civil servants in the member states but less than 15,000 officials on the operating budget of the European Commission (about one fifth are required because we work in nine languages).

It follows that, although the Commission has the final responsibility for the execution of the budget, most of the operations, probably about 80 per cent, are in fact carried out in the member states. De facto, surveillance and control are shared between the member states and the Commission. Not many people seem to know, however, that when the accounts are settled each year the Commission disallows - that is, does not charge to the European taxpayer - irregular payments. For

The parliament's control over the Commission has increased. That is genuine democracy

1989 accounts we disallowed £630m, for 1990 accounts £770m and we expect to disallow a further substantial sum for 1991.

The Audit Court has recently criticised some elements of financial administration in the Commission. I will place a small bet that most commentators have not read the 484 pages of the report, nor the Commission's replies. I state emphatically that the Commission has no dispute with the Audit Court. It is the court's duty to seek to improve financial management and ours to respond. Where we think that it is right, we shall act and the member states should do so too.

However, this has also been the open season for wild statements about fraud in the Union. What we do know is that the effort against fraud and the rate of detection have increased, both the European parliament and the Commission giving this a high priority. What we do not know is whether fraud has increased or decreased, although it is very likely that it is decreasing because of the measures taken. In any event many of the figures quoted have no basis in fact.

Finally, back to basics. It seems to be the time to emphasise that the European Union:

- has been the centrepiece of UK foreign and economic policy for very good reasons since this community of friendly, democratic states has increased prosperity for its member states while strictly respecting their national diversity;
- has certain competences strictly defined by the Treaty, which cannot be changed except by unanimity;
- has sharply reduced its legislative action, the volume of proposals put to the Council and parliament having fallen like a stone since 1990 to a very low level now;
- is the world's biggest trader, providing the largest market for British goods (Britain exports more to the Netherlands and Belgium than to the US);
- is in a period of soundly-based growth, likely to outpace the US and Japan in 1995 and 1996, though more action is needed on jobs;
- has been a real force for liberalising western Europe for the free movement of goods, services and capital to the benefit of the consumer and of business, the internal market sweeping away tons of national red tape and bureaucracy.

This is the picture in the looking glass.

David Williamson

The author is secretary-general of the European Commission

OBSERVER

On the Wild side

■ So "Wild" Bill Buford, editor of the London-based quarterly publication Granta, is defecting to the New Yorker magazine as its literary and fiction editor. Judging by the sounds of lamentation and rending of garments emanating from British literary circles yesterday, anyone would have thought the chancellor had slapped top-rate VAT on books.

It was 15 years ago that the flamboyant American took on Granta, then an ailing Cambridge undergraduate periodical, and turned it into a vital forum for the best in new writing, from fiction to reportage and travel writing, with a circulation of 95,000.

Described by one former colleague as "an exasperating genius", Buford is very much the hands-on editor - wielding, his contributors would say, a machete rather than a more delicate instrument. His own book, *Among the Thugs*, by the way, is a study of British football hooligans - not a confession of his professional *modus vivendi*.

In latter years, though, Granta had lost some of its ability to surprise and many of its regular contributors - Salman Rushdie, Martin Amis, Hanif Kureishi and Julian Barnes - are now established columnists on the more lucrative New Yorker. "He's following the market really," is how Kureishi puts it.

While Granta without Buford is hard enough to imagine, Buford with a boss is a yet more challenging concept. But no doubt Tina Brown, the New Yorker's fierce British editor, will know when to put the boot in.

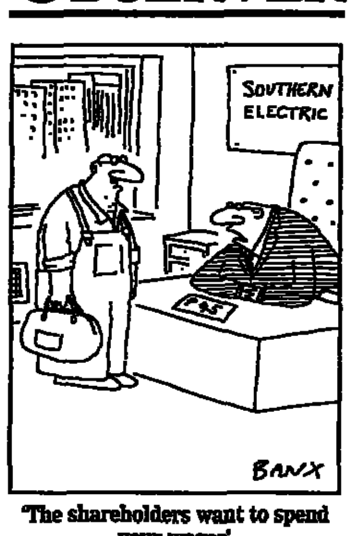
Bottoms up

■ Long live the beerage. Sir Paul Nicholson, the deer-stalking chairman of Vaux, the Sunderland brewer and hotelier, has just become the third generation of his family to chair the Brewers and Licensed Retailers Association.

Grandfather was chairman of the association for six years in the 1920s and 1930s, and father for a year in the 1960s.

But despite his pedigree - Harrow, Cambridge and the Coldstream Guards - Sir Paul likes to give the impression that his family are strictly tradespeople and not hereditary owners of what he likes to refer to as his "booze and snooze business". Bit hard to believe - given that he got the chairman's job at 38 and has been doing it for nearly 20 years.

True, Sir Paul's grandfather started at Vaux as a humble accountant in 1896, and the family now owns less than 1 per cent of the firm. Then again when grandad wanted to catch the night sleeper to London he could get it to halt at the bottom of his drive.



'The shareholders want to spend your wages'

Not even Sir Paul, the new president of the Northeast Chamber of Commerce, can command that sort of service these days.

Folly bizarre

■ For sale: presidential palace, one previous elderly owner. Malawi's new government is looking for someone to rent or buy one of Africa's most remarkable follies - a 300-room palace, commissioned by the country's former leader, Hastings Kamuzu Banda.

The erstwhile life president, whose autocratic style won him the nickname "One Man Banda", will no longer be needing it - he was defeated earlier this year in the country's first multi-party election since independence in 1964.

So New State House in the capital Lilongwe has been put on the market. It "occupies a magnificent setting amongst vast beautiful landscaped (sic) comprising immaculate grassed gardens complete with a summer pavilion, terrazzo pavings and exotic flora", and comes with a banqueting hall capable of seating 600 guests. All interested entrepreneurs are invited to write to Box 30228, Lilongwe.

Sounds like a suitable retirement home for another elderly gentleman - the one who used to run Lonrho.

Tasty profit

■ Know your beer - a venture capitalist's view. No doubt there are all sorts of good financial reasons why Phil Goodwin, 3i's man in Manchester, is putting £13m of equity into the £35.5m management buy-out of Presspart from BTR.

But Goodwin's latest investment has also been guided by his taste buds. Apparently, Presspart has cracked the secret of how to make the widget which puts the fizz in beer cans out of metal rather than plastic.

Apart from making it easier to recycle empty cans, the all-metal device functions at normal draught beer drinking temperatures so imbibers can taste the hops better. "I really don't like canned draught beer that's been over-chilled in the fridge to make the widget work," opines Goodwin. Nice to find a venture capitalist who knows about more than champagne.

Baby on board

■ Remember the South African Airways TV commercial which showed a passenger giving birth prematurely? Apart from an attempt to symbolise the birth of the new South Africa, delivered with the subtlety of a wildebeest skipping down the aisle of a 747, the heroic air hostesses bring the young passenger into the world without a drop of goo staining their impeccably pressed uniforms.

Now TWA has set the record straight. On-board labour is a far messier business - judging by an unscheduled arrival on a recent TWA flight from New York to Orlando.

Fortunately, a doctor and two paramedics on the flight came to the rescue of the cabin staff. Even so, they still needed a straw to clear fluid from the baby's lungs and shoe-laces to tie the umbilical cord, according to TWA's version of events.

However, when it comes to toe-curling sentimentality there is not much difference between the new South Africa and TWA. The lucky parents honoured the airport where TWA made an unscheduled landing by naming their child Dulles. Pass the sick bag, please.

FINANCIAL TIMES
Thursday December 15 1994

Troubled US train operator slashes services as ticket sales fall

Amtrak axes 5,500 jobs in bid to cut projected $200m deficit

By Our Foreign Staff and agencies

Amtrak, the US public sector train operator, is cutting about 5,500 jobs and shutting down 21 per cent of its passenger service in an effort to eliminate a projected $200m deficit this fiscal year.

Amtrak said most of the cuts would be in the frequency of train services, but some routes would be eliminated, including services between Chicago and Milwaukee, Chicago and Grand Rapids and San José to Sacramento and Roseville, California.

Mr Thomas Downs, Amtrak president, said the system could no longer afford to maintain its service to 540 cities across the US as a result of a rising deficit and shrinking ticket sales.

Amtrak admitted earlier this year that it was losing $33 on every ticket sold.

Its efficiency record has deteriorated and last year saw the worst accident in the network's history when 47 people died in a crash on the Los Angeles to Miami route.

Amtrak lost $76.2m in fiscal 1994, the fifth straight year it has been in the red. Passenger numbers fell about 300,000 from the year before.

The rail system has always depended heavily on federal subsidies, this year worth $952m.

The cuts announced yesterday are expected to save $173m in the current fiscal year, and more than $360m in 1996 and annually thereafter.

In addition to the three routes being scrapped, other services will be cut back, including trains from St Louis to Kansas City, Birmingham to Mobile, Alabama, and New York to Montreal.

Amtrak, which operates its services on track owned by the private sector, said it was planning further cuts in the frequency of services, which it will announce later.

Mr Downs said: "In the past we have tried to be every place all the time." But "rail passenger services can't afford that anymore ... in a rapidly changing transportation environment".

Decisions on what services to cut and reduce were made "strictly on what made economic sense", he said.

Scalfaro stays in Rome to handle growing crisis facing government

By Robert Graham in Rome

President Oscar Luigi Scalfaro last night cancelled all immediate engagements outside Rome to handle the deepening crisis facing the Berlusconi government.

The worsening plight of the rightwing coalition of Mr Silvio Berlusconi was underlined yesterday when the populist Northern League snubbed its partners and voted with the opposition to defeat the government on a vote to create a special parliamentary commission for broadcasting.

Mr Scalfaro alone has the authority to dissolve parliament or ask a new person to form a government. He will play a key role both in determining the length of the seven-month old Berlusconi government and its successor.

Financial markets also reflected this nervousness, even though the 1995 budget looked set to pass speedily through parliament. The lira was hovering around its historic low against the D-Mark of L1,042.

The damaging conflict between the Italian government and the judiciary was heightened by Milan magistrates' interrogation of Mr Berlusconi. This view was echoed by politicians and in newspaper editorials yesterday following Mr Berlusconi's defiant statement attacking the magistrates after he had been questioned by them on Tuesday.

Mr Berlusconi took the magistrates to task for interrogating a serving prime minister when, he claimed, they had no documentary evidence to incriminate him. He also accused them of seeking to make the most of his being questioned by them creating "a spectacle of justice or, rather, creating injustice out of a spectacle".

The Milan magistrates, conducting a corruption investigation and who questioned him for over seven hours about his running of his Fininvest business empire, decided to observe an uncustomary uncharacteristic silence. They appeared anxious to avoid any suggestion that they were prejudicing their case.

For once, virtually nothing has been leaked to the media about what the magistrates wanted to find out from Mr Berlusconi.

Most commentators focused on the length of time Mr Berlusconi was obliged to spend at the Milan Palace of Justice. A spokesman for Mr Berlusconi said only two hours were strictly interrogation – the bulk was taken up with obtaining an agreed verbal record.

The legal procedure will now follow one of three paths. The magistrates can demand to question Mr Berlusconi again on the grounds that new evidence has emerged, or recommend that he be charged and sent for trial or drop the enquiry. A decision is unlikely before the end of the month.

Bossi's League backs off, Page 2

Bankrupt

Continued from Page 1

the troubled state bank which has been pursuing Mr Tapie for the FFr1.2bn ($230m) he owes it, said the decision might cost the bank FFr1bn, apparently because the state had first call on Mr Tapie for unpaid tax. The ruling also blocks Crédit Lyonnais' planned auction today of Mr Tapie's 17th-century Paris mansion. Its future will be decided by a court-appointed liquidator.

Mr Tapie still faces other court cases concerning the fate of his industrial holdings, chiefly a health food chain and several makers of weighing machines.

In the 1980s Mr Tapie amassed what appeared to be a considerable sum of money from buying and reselling companies in financial difficulty.

As his business career, which included ownership of Olympique-Marseille football team, soured, he turned to politics. He was minister for cities in the last Socialist government, and won 12 per cent of the vote in the last European parliament elections.

Efta will survive loss of its members to EU, say ministers

By Frances Williams in Geneva

The European Free Trade Association (Efta), which next month will lose three of its seven members and two-thirds of its population to the European Union, can survive in truncated form, ministers of the group decided yesterday.

The association, set up in 1960, was effectively reprieved by Norway's rejection of EU membership in last month's referendum. It will nevertheless be a shadow of its former self after Austria, Finland and Sweden join the EU on January 1.

The Efta population will shrink from 33m to just 11m, consisting of two small nations – Switzerland and Norway – and two tiny ones, Iceland and Liechtenstein. Norway and Iceland will continue to be members of the European Economic Area, which ties them into the EU single market, while Liechtenstein hopes to join the EEA shortly. Swiss voters rejected the EEA in a referendum two years ago.

Efta ministers, meeting in Geneva, also agreed that the Efta court and the Brussels-based Efta surveillance authority set up to oversee operation of the EEA will be retained on a smaller scale.

Surprisingly, however, they showed little enthusiasm in encouraging Slovenia's interest in joining the association. Ministers decided first to restart negotiations on a free trade accord with Slovenia which were interrupted when almost complete because of uncertainties over Efta's future existence.

Consideration of possible Slovenian membership, which would require further free trade negotiations, has been deferred until early next year.

Efta already has free trade agreements with half a dozen former communist states as well as Israel and Turkey, and these will continue. There had been hopes that Efta could find a new role as a "halfway house" for central and east European nations preparing to join the EU.

But Mr Kjartan Johannsson, Efta's Icelandic secretary-general, said this week that apart from Slovenia, whose attempts at forging EU ties are being blocked by Italy over a property dispute, these countries had shown little interest in Efta.

"They are focused firmly on the EU and seem to think we would only be a diversion," he said.

A final decision on the future size and structure of the Efta secretariat in Geneva will be made by mid-January and put into effect by the middle of next year.

But with finances heavily constrained, many – and perhaps the majority – of the 270 staff in Geneva and Brussels look set to lose their jobs.

THE LEX COLUMN

Electric shock

Trafalgar House has sent a shock through the electricity sector. At the minimum, news that it may bid for Northern Electric will force all 12 regional electricity companies to pay greater attention to shareholder value. The move could also trigger consolidation of the industry.

Northern is vulnerable because it has done relatively little to cut costs. So a more aggressive management may be able to squeeze greater value from its assets. But whether Northern falls will depend on how much Trafalgar is prepared to pay. Shareholders are unlikely to be interested in an offer of less than £8 a share in cash plus whatever net proceeds Northern receives from demerging its stake in the National Grid – worth perhaps a further £2 a share.

Northern's best defence will be to improve earnings per share by gearing up its balance sheet through large dividends or share buy-backs. With a stable monopoly franchise, the company could manage gearing of over 50 per cent. Though Northern has already bought back 10 per cent of its equity, it is still ungeared.

The alternative defence – seeking a white knight – could be futile. Other companies, notably Scottish Power, are thought to have looked at Northern. But why would they become embroiled in a bidding war with Trafalgar when they have 11 other recs to choose from?

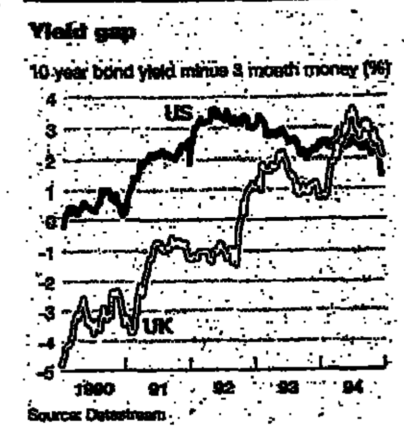
Such thinking points to copycat bids or mergers rather than counterbids. For bidders outside the industry, the logic of buying a rec would be that they could manage it better – unless, like Trafalgar, they can also use up tax losses. For other electricity companies, the logic is different: merging two recs could eliminate duplication in head offices, customer services and billing systems. That could save up to £50m a year, though not all the benefits would go to shareholders. The industry's regulator has said that customers must receive their cut.

While intra-rec mergers could make sense, it would be a mistake if they were embarked on for defensive reasons. Shareholders would not be pleased if two fearful recs joined forces as a way of avoiding tough decisions on cost-cutting. It would be better to remain independent, cut costs and gear up balance sheets.

FT-SE Index: 2980.6 (+34.2)

Yield gap

10 year bond yield minus 3 month money (%)



Source: Datastream

Trafalgar House

If Trafalgar House bids for Northern, much will be made of potential synergies: in particular, how a cyclical engineering and construction business benefits from acquiring dependable utility profits. But the issues dominating the debate are likely to be tax, and the motives of Trafalgar's largest shareholder, Hongkong Land, which would underwrite any funding.

Since Hongkong Land bought into Trafalgar in 1992, shareholders have suffered asset write-downs and two rights issues. Those that remained have done so because they expect a sharp recovery over the next three years – hence Trafalgar's prospective price-earnings ratio of over 20.

With such a high p/e, virtually any acquisition would enhance earnings in the short run. But given that Northern's earnings profile is dull, profits growth will be less spectacular. Tax could answer such concerns. Northern's profits and the impending Grid demerger will create substantial tax liabilities. Trafalgar has written off close to £200m of Advance Corporation Tax, due to the recent profits collapse. This ACT could be revived as a meaningful asset.

How would an offer be funded? The most obvious options – a big rights issue or borrowing that leads to gearing over 100 per cent – are unappealing. An offer of convertible preference shares would be a logical alternative. If they are non-redeemable, they would count as equity rather than debt, even under the latest accounting standards, so protecting Trafalgar from high gearing. They would also postpone earnings dilution and offer a slightly lower risk investment for institutional investors.

But that is where Hongkong Land enters the picture. It has $7.7bn of net assets, virtually no debt and serious misgivings about the future of Hong Kong. Underwriting a Trafalgar convertible issue could enable it to channel more cash into the UK and gain control of Trafalgar, following conversion, without paying other shareholders a premium. Trafalgar will need to convince investors that this is not the game plan or it could derail any bid.

Yield curves

World bond markets are in the throes of "curve compression". In the past few weeks there has been a swift flattening of yield curves, with long-term interest rates dropping as short and medium-term rates have risen.

The trigger for the flattening, the most rapid since the early 1980s, is the tough monetary stance being taken by the US Federal Reserve. Investors are expecting further US rate rises of up to 75 basis points within three months with another 50 points coming shortly afterwards. The Fed should be given credit for its recent monetary rectitude, but markets may be getting ahead of themselves.

A flattening yield curve usually indicates a slowing economy and the imminent approach of peak interest rates. These conditions are not fulfilled in the US. First, the economy is steaming ahead and weakness is not likely to show itself until next spring. Second, it is uncertain that the Fed will move in the way markets expect: after all, it has already tightened more aggressively than most expected earlier in the year.

The UK and the economies of Australia and New Zealand follow the US economic cycle more closely than those of continental Europe. It is thus understandable that yield curves have taken their cue from the US, even if the same objections remain. In the UK, for example, a burst of consumer spending in the run-up to Christmas could make the beginning of a downturn look remote and interest rates have a long way to go before they peak.

There is still less reason for the curve compression which has taken place in Germany, where the economy lags the US by at least 18 months. Here, the next move in rates could as well be down as up. If it is up, the move is unlikely to come until the second half of next year. In Germany, as in other bond markets, the flattening of yield curves looks premature.

FT WEATHER GUIDE

Europe today

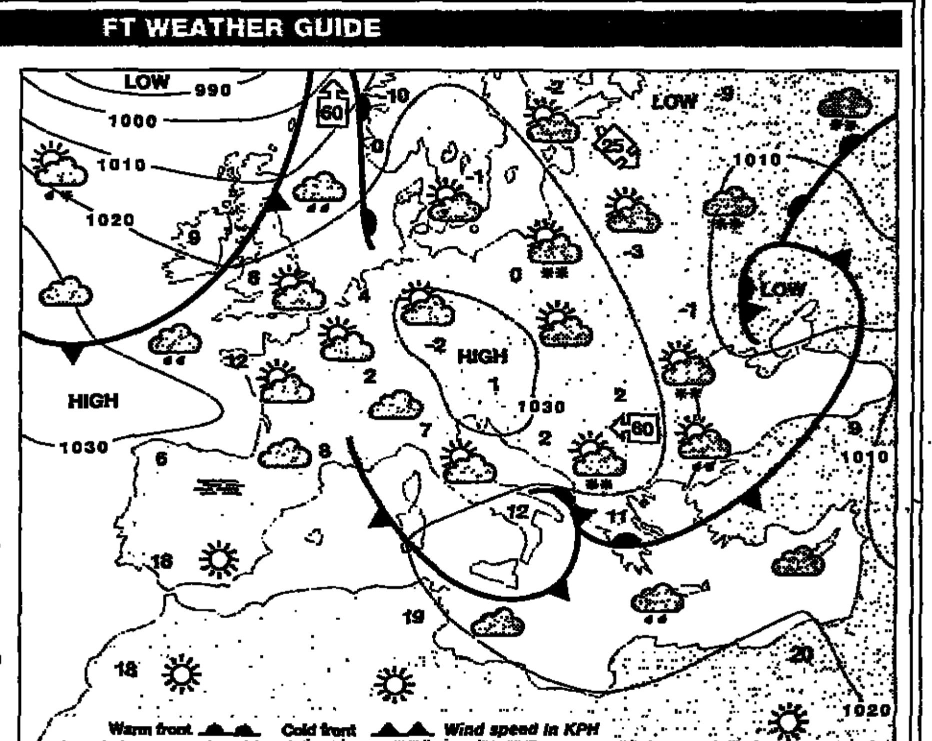
Central and north-western Europe will be calm and chilly with patchy snow near the Baltics and freezing temperatures during the day. France will be cold with some fog, while Spain will be mild with temperatures as high as 20C along the south-eastern coast.

After yesterday's light snowfall, the Alps will have a dry spell with moderate temperatures. Rain, accompanied by milder air, will spread across the British Isles.

The southern Balkans will have showers, sometimes with thunder. The Carpathians, Turkey, and southern Russia will have widespread snow. Cold air, with freezing temperatures, will be drawn to Greece. Except for the Norwegian seaboard, Scandinavia will remain cold and frosty but sunny.

Five-day forecast

Unsettled conditions will spread from Turkey to Cyprus and the Middle-East on Friday. The Low Countries and France will warm up on Friday, while Scandinavia and central Europe will turn milder on Saturday. Eastern Europe will remain cold with light to moderate daytime frost stretching from Poland to the Balkans and more severe frost over central Russia.



TODAY'S TEMPERATURES

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

	Maximum		Beijing	sun	-1	Caracas	shower	30	Faro	fair	18	Madrid	sun	13	Rangoon	fair	31
	Celsius		Belfast	rain	8	Cardiff	rain	10	Frankfurt	sun	-1	Majorca	fair	17	Reykjavik	shower	1
Abu Dhabi	fair	26	Belgrade	cloudy	2	Casablanca	fair	18	Geneva	fair	2	Malta	shower	18	Rio	fair	31
Accra	fair	31	Berlin	sun	0	Chicago	rain	2	Gibraltar	sun	18	Manchester	rain	8	Rome	fair	14
Algiers	fair	19	Bermuda	shower	22	Cologne	fair	1	Glasgow	rain	9	Manila	cloudy	31	S. Frsco	sun	12
Amsterdam	cloudy	4	Bogota	cloudy	21	Dakar	cloudy	28	Hamburg	fair	0	Melbourne	fair	28	Seoul	cloudy	-2
Athens	thund	14	Bombay	sun	32	Dallas	cloudy	18	Helsinki	cloudy	-4	Mexico City	sun	22	Singapore	cloudy	32
Atlanta	cloudy	16	Brussels	fair	2	Delhi	sun	23	Hong Kong	cloudy	22	Miami	sun	23	Stockholm	fair	1
B. Aires	shower	32	Budapest	fair	3	Dubai	fair	25	Honolulu	cloudy	28	Milan	fair	8	Strasbourg	fair	1
B.ham	shower	8	C.hagen	fair	2	Dublin	rain	10	Istanbul	shower	8	Montreal	fair	-8	Sydney	cloudy	26
Bangkok	shower	33	Cairo	fair	20	Dubrovnik	fair	11	Jakarta	cloudy	30	Moscow	snow	-9	Tangier	fair	18
Barcelona	fair	15	Cape Town	fair	28	Edinburgh	rain	8	Jersey	fair	7	Munich	fair	-1	Tel Aviv	sun	19
									Karachi	fair	28	Nairobi	cloudy	24	Tokyo	shower	11
									Kuwait	fair	18	Naples	fair	12	Toronto	fair	2
									L. Angeles	fair	18	Nassau	shower	27	Vancouver	rain	8
									Las Palmas	fair	23	New York	fair	6	Venice	fair	8
									Lima	cloudy	24	Nice	cloudy	14	Vienna	fair	2
									Lisbon	fair	17	Nicosia	shower	14	Warsaw	snow	0
									London	cloudy	8	Oslo	fair	-3	Washington	cloudy	7
									Lux.bourg	fair	-2	Paris	fair	2	Wellington	fair	19
									Lyon	fair	2	Perth	fair	32	Winnipeg	fair	-14
									Madeira	fair	21	Prague	fair	-1	Zurich	sun	2

FINANCIAL TIMES
COMPANIES & MARKETS
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IN BRIEF

Euro Disney cuts entry price by 20%

Euro Disney shares rose after it said that from April it would cut about 20 per cent off the price of tickets into its loss-making theme park outside Paris. Page 24

Sprint and Telmex to form alliance
City Sprint, the US telecommunications group, is to form an alliance with Teléfonos de Mexico (Telmex), the country's telephone monopoly, to provide services throughout North America. Page 26

Pentium PC sales still strong says Intel
Sales of personal computers based on Intel's flawed Pentium microprocessor chip continued to be robust, in spite of negative publicity and the decision by IBM to halt sales, US retailers said. Page 26

J.P. Morgan makes profits warning
J.P. Morgan and Co Inc said its fourth-quarter earnings will be lower than the third quarter's $327m or $1.63 a share, mainly due to "substantially reduced" trading revenues.

Accor ready for talks on unit sale
Accor, the French hotel and restaurant group, said it hoped to negotiate the sale of a majority stake in its restaurant concession business to Charterhouse, the UK investment fund this month. Page 24

HK watchdog seeks liquidation of MKI
Hong Kong's Securities and Futures Commission (SFC), the colony's corporate watchdog, has applied to the Hong Kong Supreme Court to have MKI Corporation, an investment company, wound up. Page 28

Tenneco plays key piece in sell-off game
Tenneco's decision to float its Albright & Wilson chemicals subsidiary on the London Stock Exchange early next year is probably one of the last big pieces to be moved in the restructuring chess game. Page 26

VideoLogic to play with NEC
VideoLogic, the small multimedia company, has signed a development agreement expected to be worth millions of dollars with NEC, the Japanese electronics group, after a breakthrough which could revolutionise the computer games business. Page 33

MFI fails to dispel retail gloom
MFI, the furniture retailer and manufacturer, failed to dispel gloom in the retail sector yesterday when it reported interim profits at the bottom end of expectations thanks to a squeeze on gross margins. Page 29

Restructuring leaves Manweb lower
Mr John Roberts, chief executive of Manweb, said the electricity distributor had no plans to merge with other regional companies. Page 30

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				**Rises**			
Asko Prf	645	+	35	Banc Comp	555	+	12
Daimler Bnz	728.5	+	11.4	Cred Local	407	+	7.2
Sud Chemie	545	+	10	Danone	770	+	16
VEW	397.5	+	10.5	Fonc Lyon	650	+	24
Falls				**Falls**			
Lahmeyer	600	–	25	GTM Entre	388	–	10
Zanders	221.5	–	8.5	Imetal	516	–	13
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Caterpillar	51⅝	+	⅝	Daikyo Inc	719	+	16
Dow Chem	66¼	+	2¼	Nip Soda	603	+	16
Motorola	55⅝	+	⅝	**Falls**			
Pfizer	78	+	1¼	Aoyama Trd	1910	–	60
Sprint	31⅛	+	1¼	Inex	891	–	29
Falls				Mitsui Corp	1280	–	40
Upjohn	31	–	⅜	Yuasa	540	–	22

New York prices at 12.30pm.

LONDON (Pence)							
Rises				S Wales Elect	827	+	41
Baggeridge Brick	124	+	10	S West Elect	843	+	55
Chemring	298	+	16	VideoLogic	51	+	11½
Comm Union	513	+	18	Wessex	121	+	15
Eng China Clays	340	+	17	**Falls**			
Euro Disney	115	+	10	Ashtead	405	–	16
General Accident	516	+	22	Cantab Pharm	350	–	15
Manweb	831	+	51	Hogg Robinson	184	–	8
Marbury Asset	745	+	27	Hornby	127	–	50
NFC	160	+	7	Stoddard Sekers	28	–	4
Northern Elect	1010	+	100	Tadpole Tech	378	–	11
Pentalc	903	+	29	Tinsley (Eliza)	107	–	10
Scottish Power	343	+	11½				
Southern Water	570	+	31				

Shares jump after Trafalgar House puts Northern Electric in its takeover sights

Bid fever in UK electricity sector

By Michael Smith and David Wighton in London

The first hostile bid for a privatised UK utility loomed yesterday after Trafalgar House, the engineering and property conglomerate, announced it was considering making an offer for Northern Electric, a regional electricity distributor.

Trafalgar disclosed its potential bid after intervention from the UK Takeover Panel following a substantial rise in Northern's share price during the last few days. Shares in Northern, which is based in Newcastle upon Tyne, rose 100p to £10.10, valuing the company at £1.25bn ($2bn). Trafalgar's shares rose 1p to 72p.

Earlier plans by Trafalgar to bid as early as today appear to have been shelved. Trafalgar was said to be considering its position but a bid still seems likely.

Some analysts believe Trafalgar's emergence as a predator makes restructuring in the sector inevitable with some companies seeking mergers to avoid the possibility of an unwelcome bid from outside the sector.

Shares in the 12 regional electricity companies (recs) in England and Wales rose by an average of 5 per cent yesterday. At the close, they were valued at a combined £17.1bn.

Any attempted takeover would be politically contentious. The opposition Labour party is likely to charge that the regional companies are attractive to predators because regulation is too slack.

The government owns a "golden share" in each of the 12 recs which prevents any bidder from buying more than 15 per cent of a company's shares. However, this expires at the end of March and some analysts believe the government may be persuaded to allow a bid before then.

Northern is likely strongly to resist a bid which its executives believe has no industrial logic and is motivated by a desire to gain access to the company's potential cash pile.

Northern said it had received no proposals from Trafalgar and advised shareholders to take no action. "The board of Northern Electric has demonstrated its ability to deliver value to shareholders and customers and has a clear strategy to continue to do so as an independent company."

Some electricity analysts were puzzled by Trafalgar's motives. "There is no synergy apart from finances", said one.

Some shareholders also expressed doubts about the move arguing that it had more to do with the strategic interests of Hongkong Land, which owns 25 per cent of the shares, than with the interests of Trafalgar itself. Hongkong Land is a subsidiary of Jardine Matheson, the Hong Kong conglomerate which is trying to reduce its dependence on the colony ahead of the handover to China in 1997. By funding the acquisition of Northern Electric, Jardine would channel Hong Kong cash into a UK business providing reliable profits.

Hongkong Land has effective control of Trafalgar after engineering its financial rescue over the last two years.

The world's fourth largest engineering and construction contractor, Trafalgar House also owns the Cunard shipping line, the Ritz hotel in London, and a large property portfolio.

Trafalgar House has 4,500 employees in Northern's region which it believes will help its case. Trafalgar also makes power station equipment and is keen to use Northern's expertise to buy into utilities outside the UK.

It is thought that Swiss Bank Corporation, Trafalgar's financial adviser, has been buying Northern shares in the market.

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Fokker shares slide after warning of another loss

By Ronald van de Krol in Amsterdam

Shares in Fokker, the Dutch aircraft maker controlled by Deutsche Aerospace of Germany, fell more than 15 per cent yesterday after it said it would make virtually no progress in cutting losses this year.

The profit forecast, which ran counter to a prediction in August that losses would narrow in 1994, sent Fokker's shares tumbling to close at Fl 12.30 compared with Fl 14.50 on Tuesday.

Fokker blamed the revised outlook on the steep drop in the dollar in the second half of 1994 and a further decline in the dollar-denominated selling price of new aircraft. It expects its losses in 1994 to be about equal to the record Fl 460m ($261m) net loss posted in 1993.

The company said it would continue to aim at returning to profitability in 1996, in line with its existing target. But to achieve this, it said it would need to reduce its cost base further, holding out the possibility of additional job losses.

A decision on what measures were needed to pare costs is expected to be taken in the first quarter of 1995.

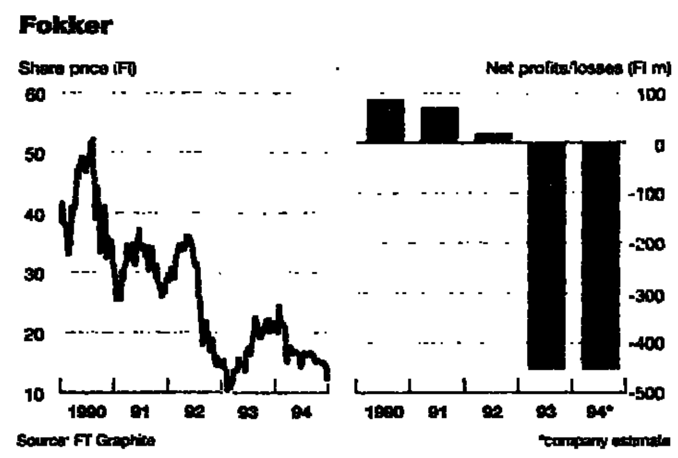
Dasa, which acquired a 51 per cent stake in Fokker in 1993, recently injected Fl 600m into the Dutch company to shore up its balance sheet. The Dutch government also lent indirect support by approving a Fl 400m sale and lease-back of Fokker's technology to Rabobank, the Dutch co-operative bank.

Fokker, which has been majority-owned by Dasa since early 1993, has carried out three rounds of restructuring in the past three years. These have reduced the workforce to fewer than 10,000 people, from more than 13,000 in 1990.

The company said the aviation market's malaise was more a problem of falling prices than stagnant orders.

Most of Fokker's costs are incurred in guilders, one of the strongest European currencies, while its aircraft are sold in dollars. This creates additional pressure that is not faced by US companies such as Boeing and McDonnell Douglas, a company spokesman said.

In spite of its downwardly-revised profit forecast, Fokker said it detected signs of an emerging market recovery. "Discussions on the acquisition of new aircraft are being held with a number of airlines, several of which have requirements for large quantities," it said.



Source: FT Graphite
*company estimate

BP unveils ambitious performance targets

By Robert Corzine in London

British Petroleum has announced that it wants to boost profits by 50 per cent within two years, and cut its debt by about $3bn, without any help from higher oil prices.

Mr David Simon, chief executive, unveiled the performance targets, the first since a boardroom coup plunged the company into crisis 2¼ years ago, at a presentation to City of London analysts and institutional shareholders yesterday.

He said BP had established a track record in meeting the key financial targets it had set for itself at the time of the crisis. The company was now healthy enough move on to a new set of goals. BP's strategic emphasis over the next two years will be on "improved profitability, disciplined growth and a strong balance sheet".

BP's profits in the first nine months of this year were $1.59bn. It wants to increase annual replacement cost earnings to $3bn a year within two years, a substantial increase in the $2bn target set in 1992.

Mr Simon said this was possible even if oil prices remain around the present, relatively low, level of $16 a barrel for the benchmark Brent Blend. He conceded that a fall to the $12-$14 a barrel seen earlier this year would force BP to re-consider the timing of its targets.

Higher product volumes, new technology, cost reductions, improved organisational structures and lower interest charges would all contribute to the planned earnings improvement.

The importance of a strong balance sheet meant BP wanted to reduce its debt of $10.8bn to about $8bn by 1996.

That would bring down gearing from about 60 per cent to 30-35 per cent, a figure more in line with BP's peers in the international oil industry. BP's debt reached a peak of $16bn at the time of the 1992 crisis.

The company expected to increase its capital spending to about $4.5bn next year, from less than $4bn in 1994.

Mr Simon said improved productivity meant the company could maintain itself on an annual capital expenditure of $3.5bn. The additional $1bn would be devoted to growth of existing or new projects.

Mr Simon, who is to take over as chairman next July, declined to comment on possible increases to BP's dividend, except to say that increases could "only be justified on the basis of sustained performance improvement". He also denied that the company would use its strong free cash flow to buy back its shares.

Mr John Browne, head of exploration and production, who will take over from Mr Simon next year, also announced that BP had succeeded in replacing its 1994 production. It expects to expand production by 2 per cent during the next three years.

Kaufhof bank deal for GE Capital

By John Gapper, Banking Editor, in London

GE Capital, the financial services subsidiary of General Electric of the US, has made its entry into consumer finance in Germany by taking control of Service Bank, the finance arm of the Kaufhof store group.

GE Capital is thought to have paid about DM75m ($50.3m) for an 80 per cent stake in Service Bank. The move is a sign of the growing competition to provide financial products such as credit and debit cards from non-German companies.

It will use the bank's network of 36 branches in Kaufhof stores and 200 automated teller machines to sell a range of financial products. Outside the US, GE Capital's strongest consumer operations are in the UK and Scandinavia.

German consumers have traditionally not used credit cards.

National Westminster Bank last year set up a German company to offer domestic retailers finance for in-store cards. GE Capital said it intended to use Service Bank to offer other financial services outside the Kaufhof stores.

GE Capital is thought to have paid about twice book value for its 80 per cent stake. The remaining 20 per cent will be split equally between Kaufhof Holding, and the Metro and Kaufhof Group, the largest European retailing group.

Mr Christopher Mackenzie, president of GE Capital Europe, said the purchase was "a slightly different way" of competing with banks. "It is not just a card issuer, but a bank that has got outlets in stores, which is wonderful," he said.

Mr Mackenzie said that GE Capital, which provides finance in the UK for cards in stores such as Harrods, Debenhams and Burtons, was "looking at expanding into credit cards" and its outlets would not be confined to Kaufhof stores.

As well as signalling competition in German finance, the purchase is evidence of pressures facing European banks from other financial services providers. GE Capital currently processes 80m retail card accounts around the world.

Service Bank, which has assets of DM760m, issues the Yesss debit card of the Metro group. Metro has more than 2,000 stores in 11 countries, including ASKO stores, and serves an estimated 20m shoppers a day.

SHK stake could be springboard for port expansion

Li's ship comes in at a new HK berth

By Simon Holberton in Hong Kong

Mr Li Ka-shing, the Hong Kong tycoon who made his money in the stock and property markets of the colony, has made another timely investment. He already stands to make a quick profit of up to 60 per cent but has also put himself in the position to strengthen his hold on Hong Kong's container port.

Mr Li has emerged as a leading shareholder in SHK Hong Kong Industries, a listed investment company which yesterday said it would return HK$970m (US$125m) to shareholders by way of a special dividend of HK$0.60 a share. Mr Li, who began to acquire SHK's shares in earnest a month ago, now holds about 23 per cent of its equity.

Analysts estimate that most of his stake was acquired for far less than HK$1 a share, suggesting that he may have earned in the region of 60 per cent on his investment. Yesterday, SHK's share price was HK$1.32.

Analysts said the SHK deal confirms Mr Li's reputation in the Hong Kong market as an investor with uncommon foresight. Others also think that his windfall gain of 60 cents a share is but the icing on the cake.

SHK's main asset is an 11 per cent interest in SeaLand Orient Terminals, the smallest operator at Hong Kong's Kwai Chung container port – the largest in the world. Mr Li is the dominant owner of the port through Hongkong International Terminals (HIT), a wholly-owned subsidiary of Hutchison Whampoa. One of HIT's container terminals is next door to SeaLand's Terminal 3.

SeaLand also owns 50 per cent of Asia Terminals which operates what is said to be the world's largest freight warehouse.

"I still think the end game is SeaLand," said Mr Archie Hart at Crosby Securities, a local brokerage. He believes that Mr Li may be prepared to bid for that company once the surplus cash has been returned to shareholders.

Hong Kong's port is operating at full capacity, and Mr Hart believes that a deal between HIT and SeaLand might increase the efficiency of HIT's already formidably efficient operation. Mr Li instead might seek to acquire SeaLand's terminal in exchange for HIT's right to own a piece of the yet-to-be-built Terminal 9.

This is still the subject of UK-Chinese wrangling, mainly because of the involvement of Hongkong Land, a Jardine group company, in the principal consortium selected to operate Terminal 9. Analysts believe that Mr Li, a senior adviser to the Chinese government, might be able to persuade it of the wisdom of such a solution.

INTERNATIONAL COMPANIES AND FINANCE

Euro Disney cuts entry price by 20%

By David Buchan in Paris

Euro Disney shares yesterday rose after it said that from April it would cut by about 20 per cent the price of tickets into its loss-making theme park outside Paris.

Mr Philippe Bourguignon, chairman, said the reduction was the culmination of other cuts in operating costs and hotel rates over the past 18 months and would "get us out of the negative spiral in which high costs led to high rates and lower attendance".

News of the price cut pushed Euro Disney shares up 25 centimes to FFr9.60 in Paris, although the company forecast said that, given its timing, the pricing move would have little effect on results for the year ending September 1995. It said its goal was still to break even in 1995-96.

Mr Xavier de Mezrac, financial director, said Euro Disney could expect a 1 per cent to 2 per cent increase in visitors for every 1 per cent cut in the price of entry. But he gave no forecast of likely increase in attendance, except to say he was confident the park would at least attract the extra 700,000 visitors needed to compensate for lower priced tickets.

The new price cut will bring the cost of an adult entry ticket down from FFr225-FFr250 to FFr195 during the April to September peak season, and from FFr175-FFr225 to FFr150 for October to March off-peak season, excluding Christmas.

Turnover would fall by 3 per cent to 5 per cent if the price cut failed to attract more customers because entry receipts formed only part of total income, said Mr Mezrac. He described this as the worst case scenario.

Mr Bourguignon said the last quarter of this year had seen a rise in attendance over the level in the same period of last year.

In the year to September 30, Euro Disney reduced its loss to FFr1.8bn ($332m) from FFr5.3bn a year earlier, although attendance fell from 9.8m to 8.8m visitors over the same period.

Euro Disney said yesterday it had signed an agreement with a division of the Louis Vuitton Moet Hennessy (LVMH) French luxury goods group to develop housing at the resort.

In addition, it was negotiating with a cinema operator to build a 12-screen cinema complex in the park.

Dissidents call for Saatchi's removal

By Robert Peston in London

The battle between Saatchi & Saatchi's dissident shareholders and Mr Maurice Saatchi, chairman and founder of the advertising group, intensified yesterday when shareholders formally requested that Mr Saatchi should be removed from the board.

Mr David Herro, of US fund manager Harris Associates, has written to Saatchi directors saying that if the board does not take action, a group of shareholders will call an extraordinary meeting which will "include the resolution to remove the chairman of the board".

The letter was written on behalf of Harris, the State of Wisconsin Investment Board and General Electric Pension Trust, which together control 24.8 per cent of Saatchi. Extraordinary meetings can be called by any shareholders controlling more than 10 per cent of a company.

Mr Herro said last night that he has the support of several other big shareholders and believed he was speaking for more than 40 per cent of the shares. "Our main complaint is that we feel the chairman is putting his own interests before those of the company or his shareholders."

Saatchi's board will consider Mr Herro's demand at a board meeting on Friday. Directors said the vote could go either way, but Mr Herro said he was optimistic they would "do the right thing".

One Saatchi director said he was concerned about the possible damage to the company if there was a public battle between shareholders and the board in the seven weeks preceding an extraordinary meeting.

The fight between shareholders and Mr Saatchi has come to a head because of their fury at a proposal that Mr Saatchi should receive a £5m option package. However Mr Herro has been concerned for nearly a year that Mr Saatchi's entrepreneurial style is unsuited to the chairmanship of a public company.

Accor set to sell majority stake in catering business

By David Buchan

Accor, the French hotel and restaurant group, said yesterday it hoped to negotiate this month the sale of a majority stake in its restaurant concession business to Charterhouse, the UK investment fund.

The total value of Accor's catering business on French highways, airports, train stations and museums is said to be about FFr1.6bn ($295.2m).

Charterhouse confirmed last night it hoped to take a stake of "substantially more than 50 per cent".

According to French press reports, Accor is ready to sell up to 80 per cent of its restaurant concession business for about FFr1.3bn-FFr1.5bn, as part of the disinvestment programme the French hotel group has embarked on to reduce its heavy debt.

Accor stressed it would remain "the industrial operator" of the restaurant concessions, a statement designed to reassure the public authorities granting the concessions.

It would keep the same management team so that there would be no decline in service with the financial entry of the UK investment fund into the business, Accord said. Charterhouse is controlled by Crédit Commercial de France and its German partner bank, BHF.

Wärtsilä links with Cummins

By Christopher Brown-Humes in Stockholm

Finland's Wärtsilä Diesel and Cummins Engine of the US, two of the world's leading diesel engine manufacturers, are forming a joint venture to develop and manufacture high-speed diesel and natural gas engines.

Wärtsilä Diesel, the largest unit in the Metra group, is the world's leading producer of medium-speed diesel engines. These are more powerful than the high-speed engines made by Cummins, the world's largest producer in this field.

"Through this venture Cummins will be moving up in their power range while we will be at the lower end of our power range," said Mr Ole Johansson, senior vice-president of Wärtsilä Diesel International.

Two new families of engines up to 3,600hp and 6,000hp respectively will be produced by the joint venture. The idea is to combine Wärtsilä's design with Cummins' distribution capability to lift volumes and reduce costs.

The initial collaboration will be based on the Wärtsilä 200 engine, a newly-launched product primarily aimed at the marine and power generation markets.

Production will begin at Wärtsilä's SACM Diesel Factory in Mulhouse, France.

The second engine family will be a new 4.5 litre per cylinder engine. Production is due to start in 1996.

Hungary agrees to sell hotels stake

By Virginia Marsh in Budapest

Hungary's privatisation authorities yesterday backed down and agreed to sell a 51 per cent stake in the country's last state-owned hotel chain to American General Hospitality, a privately-held US hotel management group.

AGH won the right to negotiate for HungarHotels last month but talks broke down between the company and the privatisation body after a last-minute price increase and political pressure to hand over the group to the cash-strapped social security fund.

The deal, which is due to be signed by mid-January, is only the second large privatisation to have come up since the new socialist-led government took office in July and has been viewed as a indication of the new administration's commitment to privatisation.

The State Property Agency agreed to sell 51 per cent of the chain minus one hotel for $57.5m. AGH's original bid for the whole 15-hotel group. The remaining hotel, which has a book value of $9m, is to be sold off with the proceeds going to the SPA, Mr Ferenc Bartha, government privatisation commissioner said. He said AGH had agreed to invest $19.5m in the chain over the next three years and not to sell off any of the hotels during that time. The SPA's remaining 31 per cent stake would be floated on the Budapest stock exchange.

Asturiana de Zinc shares to be sold at discount to market price

By Kenneth Gooding, Mining Correspondent

The sale of shares in Asturiana de Zinc, the world's fourth-largest zinc producer, by its parent, La Corporación Banesto, the Spanish banking and industrial holding group, is to go ahead but at a discount to the market price.

Banesto yesterday priced the Asturiana shares at Pta1,515 each compared with Tuesday's close of Pta1,550. The group previously indicated it hoped to sell at Pta1,600 a share.

The sale will raise about $109m for Banesto and reduce its holding in Asturiana from 62.39 per cent to 39 per cent.

Analysts said Banesto did well to get the Asturiana sale away, given present weak market conditions which in the past two weeks have forced two other mining companies – Samax and Union Minière – to shelve share offers.

Banesto, whose parent Banco Español de Crédito, was acquired for $2bn earlier this year by Banco Santander, sold 23 per cent of Asturiana in September to a group of international investors for $82.6m or Pta1,500 a share.

Asturiana is the subject of a financial restructuring which includes the placement of shares to Banesto to compensate for the cancellation of Pta15.24bn ($115m) in loans that the zinc company has outstanding from Banesto.

The latest offer is open to institutional investors and to Asturiana shareholders who are entitled to one share for every 15 held.

Asturiana operates the world's largest zinc smelter in Spain, with an annual capacity of 320,000 tonnes. This year it will produce about 250,000 tonnes of zinc but this could rise to 300,000 tonnes in 1995.

Standard Chartered bank to reduce workforce by 10%

By John Gapper, Banking Editor

Standard Chartered, the UK-based international bank, yesterday said it was to cut staff by about 3,000 – 10 per cent of its workforce – in the medium-term to reduce costs.

The bank, which experienced a 7 per cent rise in operating expenses in the first half, said it had shed about 1,000 of these jobs this year through restructuring and voluntary severance schemes.

It is thought to have shed a number of jobs in India and Kenya this year, although cuts are likely to affect operations around the world. The bank said it could not set a precise timetable for reaching its 3,000 target.

Standard Chartered said it believed its plans were in line with other banks. US banks have been imposing cost-cutting programmes recently, with Chemical Banking recently announcing plans to cut 3,700 jobs.

Standard Chartered's cost/income ratio in the six months to August 10 was 63.8 per cent. The bank has set a medium-term target of reducing the ratio to 60 per cent, and wants to cut the ratio eventually to about 55 per cent.

The bank has been trying to reduce costs by moving some back office processing from high wage centres such as Hong Kong into China and other lower cost areas, as well as centralising processing.

The cuts were disclosed in Hong Kong and Standard said it could give no further details. However, it is likely to shed some peripheral operations in countries where it has relatively small market shares.

EBRD backs sale of Polish state bank

By Christopher Bobinski in Warsaw

The European Bank for Reconstruction and Development (EBRD) has agreed to support the Polish government's sale of the Krakow-based Bank Przemyslowo Handlowy (BPH) with a standby share purchase agreement.

The EBRD has said it would purchase up to 30 per cent of the offer should the government fail to place the shares. The public offer, which opened last Monday and runs until January 12, puts 50.2 per cent of the bank's equity on the market. It is Poland's largest privatisation this year, and is worth at least 4,130bn zlotys ($170m).

The sale of BPH, one of Poland's largest banks and the fourth state-owned bank to be privatised, compares with the 13,800bn zlotys in new share offers and rights issues taken up by the domestic market in the first three-quarters of the year.

Mr Krzysztof Kalicki, the deputy finance minister responsible for the sale, was in London yesterday speaking to foreign investors, who are crucial to the success of the sale.

Morale is low among local small investors, who have yet to absorb this year's losses following large falls on the stock market since the spring.

The EBRD has said it would buy the shares at the minimum price of 700,000 zlotys, which gives the bank a price-earnings ratio of 3.8.

The sale of BPH, which had net profits of 1,649bn zlotys for the first nine months of this year, was set by western governments as a condition of granting Poland $600m.

UK chemicals group appoints safety board

By Tim Burt in London

Hickson International, the speciality chemicals manufacturer hit by two big industrial accidents in recent years, yesterday became the UK's first chemicals company to appoint an independent supervisory board to oversee health and safety.

It follows an explosion two years ago which killed five workers at Castleford in West Yorkshire, a fire in 1993 at Ringaskiddy in Ireland, and a £50,000 ($78,000) fine earlier this year for excessive emissions at Castleford.

Mr Dennis Kerrison, chief executive, blamed the problems on under-investment during the 1980s, but said Hickson had spent £30.2m on improving its health, safety and environmental controls in the past three years.

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1995 MARKETING STRA

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Stock options ruling spares company profits

By Richard Waters in New York

A controversial accounting proposal that would have required US companies to deduct the cost of stock options from their profits was dropped yesterday.

Members of the Financial Accounting Standards Board, which sets standards for the profession, voted by five to two not to force companies to make the charges against earnings.

The plan had come under fire in corporate and accounting circles.

Critics had complained of the difficulty of measuring the true cost of options, as well as the effect the deductions would have had on the profits of some companies, particularly small, fast-growing ones.

The FASB's vote follows an angry 18-month debate over the issue. The regulators had contended that share options issued to a company's directors and staff were similar to other forms of compensation benefit, and that their costs should be deducted from a company's profits.

Yesterday, Mr Dennis Beresford, the board chairman, said: "The board remains convinced that employee options have value and are compensation. However, in the final analysis, the board decided that there simply isn't enough support for the basic notion of requiring expense recognition."

Instead, the FASB said it would allow companies the choice of taking a charge against profits, or simply disclosing in a note the effect on profits that would have resulted from adopting the FASB guidelines for valuing options.

The board said it "expects to encourage, rather than require", companies to use the first choice.

The board added that it had yet to decide whether to issue a new accounting standard without further public comment, or whether to go through a new consultative process. The decision is likely to be made in the second quarter of next year.

Pentium PC sales strong despite flaw, says Intel

By Louise Kehoe in San Francisco

Sales of personal computers based on Intel's flawed Pentium microprocessor chip continued to be robust, in spite of negative publicity and the decision by IBM to halt sales, US retailers said.

Although customers are asking questions about the chip flaw, they continued to purchase Pentium PCs in rising numbers, Intel said. "We have talked to the leading retailers and they are reporting no slowdown in sales."

In spite of floods of calls to PC manufacturers and Intel's "hot lines", there have been no further reports of PC users being directly hit by the flaw.

"We've sold more Pentium-based PCs than any company in the US market, and ... we had not received one call from a customer complaining of any errors related to a flaw," said Mr Ted Waitt, chairman and chief executive of Gateway 2000, a leading mail order PC supplier.

"If this had been a problem with real world applications, we would have heard from our customers."

Several leading PC manufacturers said they would continue to sell Pentium PCs, in spite of IBM's contention that the flaw can cause frequent errors in mathematical calculations used in spreadsheet and similar applications.

Microsoft and Lotus Development, two of the leading suppliers of spreadsheet programs, said they would provide customers with a software "patch" that avoids use of the flawed portion of the Pentium chips.

Microsoft said it believed customers could continue to use and purchase Pentium-based PCs with confidence. "Microsoft is continuing to purchase new Pentium systems for its own use," it said.

Other PC manufacturers expressing continued confidence in the Pentium chip include Hewlett-Packard, Dell, Packard Bell, Tandy, Advanced Logic Research and Acer.

Tenneco plays key piece in sell-off game

The group's last big unit sale leaves holes that must be plugged, writes Laurie Morse

Tenneco's decision to float its Albright & Wilson chemicals subsidiary on the London Stock Exchange early next year is probably one of the last big pieces to be moved in the restructuring chess game.

The flotation will bring in some useful cash – it is expected to raise some £600m ($937.3m) – but the loss of such a company, and others during Tenneco's three-year restructuring, presents a a challenge: how will Tenneco plug the resultant profits and sales gap?

However, the move to divest a significant UK-based subsidiary when the company is pursuing a global expansion strategy shows Tenneco intends to be highly selective about its international investments.

Mr Dana Mead, Tenneco chairman, is determined to focus the conglomerate on just three main businesses – packaging, car parts and natural gas – and shed extraneous companies seen as either too cyclical or lacking in the growth potential he is aiming for.

Albright & Wilson is a remnant of Tenneco's ambitious diversification programme of the 1960s and early 1970s. During that period, the Houston-based oil pipeline company transformed itself into a industrial conglomerate, acquiring companies that did everything from underwriting life insurance to manufacturing motor components.

Many of the businesses that Tenneco acquired were highly cyclical, and some proved downright unprofitable, leaving the parent company struggling under high debt loads and small returns for most of the 1980s.

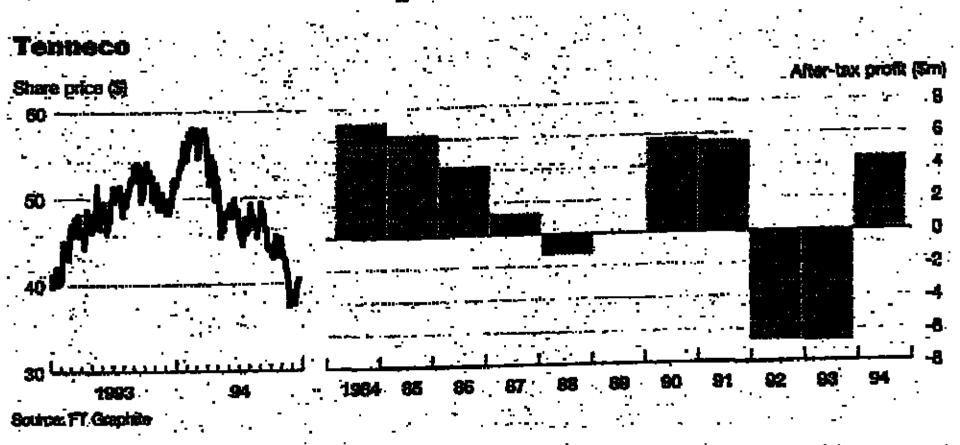
When Albright & Wilson joined the Tenneco stable in 1978, it was one of several chemical companies in the group's portfolio. The others have since been sold, but Albright & Wilson remained, its marketability diminished in part by a long-running recession in the chemicals industry.

The company is a world leader in the production of phosphate-based products used in agriculture and for such diverse purposes as putting the bubbles in shampoo and adding zip to carbonated drinks.

Mr Mead's decision to sell the UK subsidiary has a lot to do with the cyclical nature of the chemicals industry – he must convince Wall Street that Tenneco is becoming less vulnerable to economic cycles.

At the same time, Albright & Wilson's profitability is benefiting from worldwide recovery in chemicals prices this year, a factor that should help to create an eager audience for its flotation.

Tenneco has worked hard to reduce Albright & Wilson's operating costs and help its Charleston, South Carolina, specialty chemicals unit recover from a devastating plant explosion in 1991.



That year, Albright & Wilson posted a $70m operating loss after taking a $79m restructuring charge. For the first nine months of this year, it recorded operating profits of $53m on revenue of $715m.

That compares with Tenneco's consolidated nine-month net income of $376m this year, on sales of $10.07bn.

Mr Robin Paul, Albright & Wilson managing director, told a group of Tenneco managers recently his company had the potential to achieve 20 per cent annual profits growth based on expansion through joint ventures in Mexico, Morocco, China, and the Pacific Rim.

Mr Mead, however, is betting that selling the company and reinvesting the proceeds will bring in even higher returns for Tenneco.

Such a move, however, puts even more pressure on Mr Mead to replace lost income from the Albright & Wilson sale and the spin-off of 55 per cent of Case Corporation, the farm and construction equipment supplier.

Those two disposals will net Tenneco more than $1.5bn in cash but will cost it around $2.8bn in lost revenues and about $133m in lost operating profits.

Mr Mead underscored his commitment to Tenneco's remaining "core" businesses this week by announcing he would use $500m of that money to repurchase about 7.5 per cent of Tenneco's stock.

The share repurchase is a quick way to boost share value, but will not satisfy Wall Street, which is reserving opinion on Tenneco's future until, as one analyst puts it, "we know what the company is going to look like".

In the past two months Tenneco has announced a series of small acquisitions and reinvestments in its core business, amounting to about $250m.

With the proceeds expected from the Albright & Wilson flotation, Tenneco would once again have ammunition for a large acquisition. However, Mr Mead has discouraged those expectations, pointing out that a series of smaller-scale purchases or investments focused on international growth is more likely.

Sprint and Telmex to form alliance

By Ted Bardacke in Mexico City

Sprint, the US telecommunications group, is to form an alliance with Teléfonos de Mexico (Telmex), the country's telephone monopoly, to provide services throughout North America.

The deal cancels the previous accord between Sprint and Grupo Iusacell, a leading Mexican cellular telecoms company, to provide long-distance telephone services when Mexico's market is opened up to competition from January 1997.

Sprint and Telmex did not release financial details of their deal, saying the accord would not create a new entity. Instead, the two companies have promised to exchange products and services, including software platforms and other intellectual property.

Sprint said its alliance with Telmex would help it create a seamless North American telecoms network. Sprint is already aligned with Call-Net, a Canadian long-distance carrier, and operates four cross-border fibre optic connections with Telmex between the US and Mexico.

Telmex said the alliance was an important step as it prepares to lose its monopoly in the Mexican market, which is valued at about $7bn a year.

Iusacell, 42 per cent of which is owned by Bell Atlantic, blamed delays by the Mexican government for the failure of its own accord with Sprint.

Saga Petroleum to sign $1.26bn revolving credit

By Karen Fossli in Oslo

Saga Petroleum, Norway's largest independent oil producer, will today sign a seven-year $1.26bn revolving credit facility in London. It will cover the group's borrowing requirements until 2000, and allow it to expand through acquisitions in Norway and abroad.

The facility, initially for $850m, was over-subscribed by $410m and is priced at Libor plus 0.3 per cent. It replaces a $750m loan which had a shorter duration and stiffer terms.

The loan's arrangers include ABN Amro Bank, Barclays Syndications and Deutsche Bank London, with Norwegian co-arrangers Christiania Bank and Den norske Bank.

Saga said the loan covers existing debt of NKr6bn ($873.5m).

The company is planning a listing on the New York Stock Exchange in the spring of 1995, and plans to acquire reserves or companies both at home and abroad.

Saga has operational responsibility for the North Sea Snorre field, which produces 210,000 barrels a day. Also, in June, the group's North Sea Tordis field was brought on stream and currently produces 72,000 barrels a day.

Rhône-Poulenc unit in cash call

By Patrick McCurry in São Paulo

Rhodia-Ster, a Brazilian joint venture controlled by the French chemicals group Rhône-Poulenc, is set to raise between $135m and $159m in a global initial public offering. It will be the first time in at least 15 years that a foreign company has floated part of a Brazilian subsidiary.

The company, which makes polyester-based products such as flexible packaging and returnable bottles, is offering 117.7m voting shares – 23 per cent of its capital – in three equal parts to the US, European and Brazilian markets.

Mr Edson Vaz Musa, chairman of Rhône-Poulenc's Brazilian subsidiary Rhodia, said the proceeds would largely be used to pay for Rhodia's capitalisation of Rhodia-Ster, formed in May with Sinasa, a Brazilian chemicals group. Sinasa's Celbras subsidiary ran up debts of around $200m to pay for expansion of its polyester resins and returnable bottles production.

The pricing was being finalised in Paris yesterday by the company and global co-ordinator, Paribas Capital Markets.

The global depositary shares will be listed on the US Portal system and the Luxembourg stock exchange. Shares will also be listed on the Brazilian stock market.

The offering was due to be launched at least two months ago, but was delayed after a judgment by the Brazilian monopolies commission, which insisted on changes to the joint venture to prevent a monopoly in polyester and acrylic fibres.

Rhodia-Ster then agreed to sell off part of its polyester and acrylic business, but this will not significantly affect the company's growth prospects.

The company, which has planned investments of $435m to the end of the decade, says polyester demand is growing by 9.4 per cent a year in Latin America.

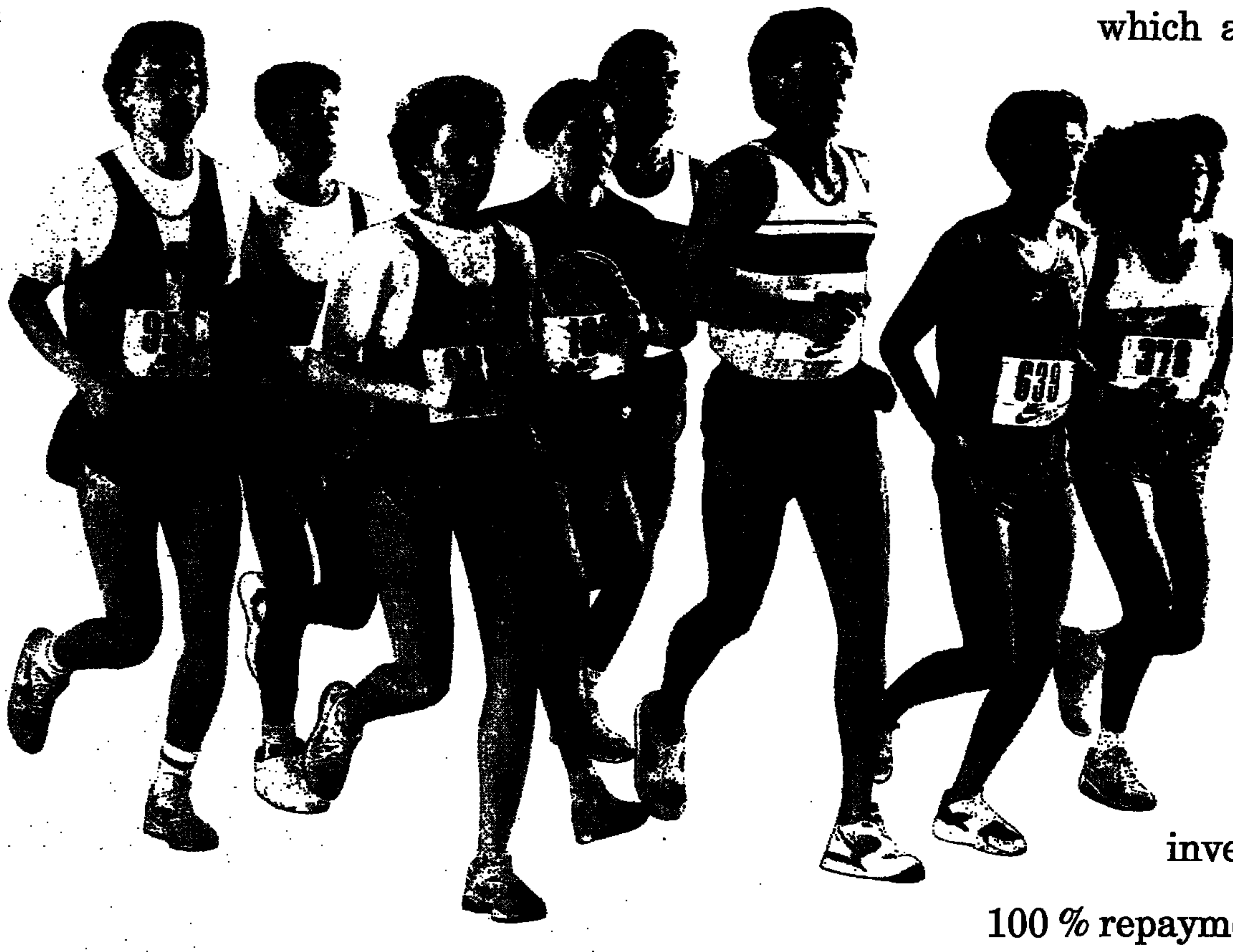
Paribas Capital Markets said the issue had been oversubscribed in spite of difficult market conditions.

THE GERMAN PFANDBRIEF

VERBRIEFTE SICHERHEIT

SOLID VALUE FROM THE GROUND UP

The last thing many investors want is to get adventurous about current fads and exotic markets. If safety, yield, a stable currency and long-term value are your priorities, consider Germany's Pfandbrief system. Pfandbriefe in Germany are bonds issued to refinance mortgages or public loans, a time-tested idea that dates back more than two centuries. In line with the Mortgage Bank Act of 1900, these bonds – which are secured by mortgages or by public-sector loans – can only be issued by specially authorized banks which are fully liable for each issue. They must carry backing of separate funds with at least matching yields and maturities. And all Pfandbrief issues are monitored by a state-appointed trustee.



The bottom line on safety? No investor has ever failed to receive 100 % repayment on a German Pfandbrief held to maturity. The legal framework surrounding Pfandbriefe has an unsurpassed record for endurance, offering investors a fixed-interest D-Mark instrument of quality – plus yields generally higher than German Treasury bonds (Bunds). Sound reasons why Pfandbriefe, at nearly DM 1 trillion at year-end 1993, amounted to 40 % of Germany's entire bond market.

German Pfandbriefe are officially quoted on German stock exchanges. Issuers actively maintain a well-functioning secondary market.

THE SYSTEM IS UNBEATABLE IN THE LONG RUN.

GERMANY'S MORTGAGE BANKS

DEPFA-BANK, WIESBADEN
BAYERISCHE VEREINSBANK AG, MÜNCHEN
HYPO-BANK, MÜNCHEN
DEUTSCHE HYPOTHEKENBANK FRANKFURT AG, FRANKFURT
RHEINHYP, FRANKFURT
DEUTSCHE GENOSSENSCHAFTS-HYPOTHEKENBANK AG, HAMBURG
FRANKFURTER HYPOTHEKENBANK AG, FRANKFURT
DEUTSCHE CENTRALBODENKREDIT-AG, KÖLN
BAYERISCHE HANDELSBANK AG, MÜNCHEN

WESTHYP, DORTMUND
BERLIN HYP, BERLIN
SÜDDEUTSCHE BODENCREDITBANK AG, MÜNCHEN
MÜNCHENER HYPOTHEKENBANK EG, MÜNCHEN
HAMBURGHYP, HAMBURG
WÜRTTEMBERGER HYPO, STUTTGART
NÜRNBERGHYP, NÜRNBERG
HYPOTHEKENBANK IN ESSEN AG, ESSEN
DEUTSCHE HYPOTHEKENBANK (ACT.-GES.), HANNOVER

BRAUNSCHWEIG-HANNOVERSCHE HYPOTHEKENBANK AG, HANNOVER
ALLGEMEINE HYPOTHEKEN BANK AG, FRANKFURT
RHEINBODEN HYPOTHEKENBANK AG, KÖLN
LÜBECKER HYPOTHEKENBANK AG, LÜBECK
NORDHYPO BANK, HAMBURG
BFG-HYPOTHEKENBANK AG, FRANKFURT
WL-BANK, MÜNSTER
HYPOTHEKENBANK IN BERLIN AG, BERLIN

INTERNATIONAL CAPITAL MARKETS

Australian groups to set up joint petroleum venture

Nikki Tait in Sydney

Caltex Australia and Ampol, which is part of the Pioneer International building materials group, agreed yesterday to pool their respective petroleum refining and marketing operations into a new company to be owned equally.

If the merger wins necessary regulatory approval, the joint venture company will be the leader of the country's petroleum refining-marketing sector, with estimated assets of A$3.1bn (US$2.4bn), total annual sales of almost A$6bn, and 28 per cent market share.

At present, Ampol and Caltex Australia – which is 75 per cent owned by the US-based Caltex group, whose owners are Chevron and Texaco – are the two smallest companies in the five-player industry. The current market leader is Shell Australia, with Mobil and BP being the other competitors.

Caltex and Ampol said they saw big cost-savings from the deal, allowing them better to compete in Australia's downstream oil industry where returns have been extremely low recently.

They calculated that there could be a A$500m addition to shareholder value "in the long-term" – although they acknowledged that this figure incorporated asset sale proceeds as well as bottom-line cost savings.

They said about a quarter of the combined operations' workforce, or about 700 jobs, would be shed. It will have two refineries at Kurnell, in New South Wales, and Lytton, in Queensland.

Under the deal, there will be a A$150m "value adjustment" in favour of Pioneer – which Mr John Schubert, managing director, described as "essentially a cash payment" – to reflect the difference in earnings of the two businesses. Pioneer expects to book an abnormal profit of A$200m in its 1994/95 accounts as a result of the deal.

Inter-company loans to the merged group's operations will be refinanced externally, a move which Mr Schubert said could cut Pioneer's balance sheet debt to A$110m from about A$850m.

A pro forma balance sheet for the merged business, as at end-June, shows net debt standing at A$1.24bn, and a net debt to equity ratio of 109 per cent.

HK watchdog seeks liquidation of MKI

By Simon Holberton in Hong Kong

Hong Kong's Securities and Futures Commission (SFC), the colony's corporate watchdog, has applied to the Hong Kong Supreme Court to have MKI Corporation, an investment company, wound up.

The petition – the first of its kind by the SFC – follows an investigation of the company's affairs under a section of the SFC's enabling legislation where it suspects a company or its officers may be involved in fraudulent activity, misfeasance or other misconduct.

MKI's shares were suspended in June after the SFC questioned it about its recent share price performance and a number of statements it had made concerning future prospects. These included a mobile telephone deal in China and a plan to site a super-computer in Inner Mongolia to analyse seismic data in Asia.

The decision came days after Mr Yao Mingwei was appointed chairman. Mr Yao is the son of the late Mr Yao Yilin, a former Chinese vice-premier. He replaced Mr Khundkar Khalid Ahmed Hossein who had himself only replaced Mr David Tang, a company director, as chairman in September.

MKI's founder and main shareholder is Mr Arthur Lai, an entrepreneur, who sold his stockbroking business to Standard Chartered in the wake of the 1987 stock market crash.

The SFC said that its application to have MKI wound up was based on its belief "that the affairs of MKI have been conducted in a manner unfairly prejudicial to its shareholders".

The High Court will hear the application on January 11.

Life insurer looks to raise at least A$500m

National Mutual, the second largest life insurer in Australia, said yesterday that A$500m (US$387.5m) was the minimum "meaningful" amount of new capital which the group would be looking to raise either via a public offering or the sale of a tranche of equity to a "strategic" investor.

Mr Geoff Tomlinson, managing director, said the mutual insurer was entertaining both options and also considering a combination of the two.

However, the insurer was unclear about the timing of any capital raising, suggesting only that it might occur in 1995 or 1996.

The comments came as National Mutual reported a sharp fall in pre-tax earnings for the year to end-September, to A$584m, compared with A$1.71bn previously.

Premium income was higher at A$2.7bn from A$2.56bn, but the total investment result fell to A$851m from A$2.18bn, leaving total inflow at A$3.55bn against A$4.74bn.

The total investment result includes interest income, which was said to be about A$880m, and both realised and unrealised capital gains, which showed an overall A$30m loss.

National Mutual declined to specify the unrealised portion, but said investment conditions had been difficult because of unfavourable bond market conditions and a sluggish property market.

The lower investment gains helped reduce the tax charge to A$30m from A$278m. Earnings credited to policyholders fell to A$348m from A$1.16bn. Group profit after charges stood at A$206m, compared with A$227m. Statutory reserves rose by A$135m to A$1.46bn.

NEWS DIGEST

NEC, Fujitsu to replace faulty Pentium chips

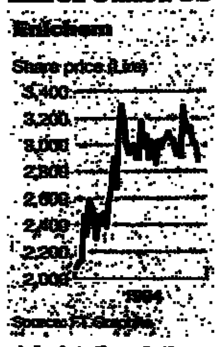
NEC, Japan's dominant personal computer supplier, and Fujitsu, its largest computer manufacturer, have agreed to replace faulty Intel Pentium microprocessors free of charge, writes Alan Cane in London. Some 150,000 Pentium-based machines have been sold in Japan to date.

Their decision comes as Intel, the world's largest semiconductor manufacturer, and International Business Machines (IBM), argue over who should bear the cost of replacing the faulty part which can cause mathematical errors in certain conditions. NEC said it believed it had a social responsibility to replace the flawed microprocessor.

IBM has already stopped shipping Pentium-based computers and has said it will replace the faulty chip in the 100,000 Pentium machines it has shipped so far. It will not, however, pay for labour costs involved.

NEC said its research showed the probability of the error in calculations was very low.

Enichem sells stake in microfibres unit



Enichem, the Italian state-controlled chemicals group, has taken a further step towards the reduction of its looming debt by agreeing to sell its majority stake in Alcantara, a microfibres manufacturer, to Toray, the quoted Japanese chemicals and fibres company, writes Andrew Hill in Milan. Enichem did not release financial details of the sale yesterday, but it is understood that the disposal of the 51 per cent stake in Alcantara should realise some L200bn ($122m).

Earlier this year, the partial flotation of EVC, Enichem's plastics joint venture with ICI of the UK, helped reduce debt by some L500bn.

With the help of a L3,000bn capital injection from ENI, its state-owned parent company, Enichem hopes to halve debt by the end of the year to L4,500bn from L9,000bn a year earlier.

Israeli electronics maker postpones equity issue

Tadiran, the Israeli electronics company, has postponed an international equity issue due to "market conditions in both the Israeli and international markets", writes Richard Lapper in London. The company, one of a number of Israeli businesses seeking capital on international markets, had been planning to raise up to $80m in an issue lead managed by Merrill Lynch.

The price of the company's shares, which trade only in New York, is currently at $18.50, having fallen $3.50 since the issue was announced earlier this year.

Tadiran also said a special interim dividend, which depended on the global offering being done, will not be paid. "Plans for a future offering will be announced as events warrant," the company said. It also said it would report by January 3 whether its shares would be listed in Tel Aviv.

Cedel to become a bank next month

Cedel, the international clearing and settlement company, will become a bank next month following a vote by shareholders, it announced yesterday. The granting of a banking licence by Luxembourg authorities was dependent on shareholder approval for Cedel's application, writes Richard Lapper.

Cedel also announced that it had been granted an A1+ credit rating – the highest short-term rating possible – by IBCA, the London-based credit rating agency.

Cedel, whose shareholders comprise nearly 100 of the international banks, is one of the world's biggest clearing, settlement and depository organisations, with a 24 per cent share of the market for clearing international traded securities.

Its move to achieve banking status was prompted by the Basle agreement on international bank capital adequacy rules, which require deposits against unsettled trades held at a corporation such as Cedel to carry a 100 per cent risk weighting.

By contrast settlement deposits at Euroclear, a rival settlement organisation which has a banking licence through Morgan Guaranty, carry a 20 per cent risk capital weighting, making it much cheaper to use for international securities clearing and settlement.

ABN Amro to issue Kc1bn bond

ABN Amro, the Netherlands' largest banking group, said it was issuing a Kc1bn ($22.2m)due December 15 1997, AP-DJ reports from Amsterdam. The issue price of the bond, which carries an 11 per cent coupon, has been set at 99.70, giving an effective yield of 11.123 per cent.

The Amsterdam-based group said it was issuing the bond on its own account but that it would also likely place some of the proceeds of the bond with corporate borrowers who are looking for Czech koruna, said.

The bank also said that early redemption of the bond was not possible and that the issue was restricted to outside the US and the UK. In the Netherlands, the bonds are not offered to private investors. Payment of the bond is due on December 15 1994. The bond might be listed on a stock exchange in the future but ABN Amro said this had not yet been decided.

Australian groups buy Kobe mine stake

Three Australian mining groups have bought the 10 per cent interest in the Boddington gold mine, in Western Australia, previously held by Kobe Alumina Associates, for an aggregate A$42.9m. Kobe Alumina is a unit of Kobe Steel and Nissho Iwai Alumina, writes Nikki Tait.

The three companies are Acacia Resources, the former Shell Australia mining and minerals business which was floated on the stock market as an independent company earlier this year; Poseidon Gold, part of the Normandy Poseidon group; and Newcrest Mining. All three were existing joint venture partners in the mine.

Japan grants trading licence to UK broker

Japan's finance ministry yesterday issued a licence for a Tokyo branch of a British securities subsidiary to operate in Japanese financial markets, writes Gerard Baker in Tokyo.

Instinet Japan, which will begin trading early next year, is capitalised at £5m ($7.8m)and currently employs 13 people. The company is wholly-owned by the London-based broker Thamesway Investment Services, which is in turn part of the Reuters group of financial companies.

Although the licence permits Instinet to trade both equities and fixed interest securities, the company said it intended to concentrate on the stock market, where its focus will be exclusively on institutional sales. The Japanese equity market is currently suffering from acute lack of demand and excess supply. Instinet plans to supplement its domestic Japanese business by selling other Asian and European equities in Tokyo.

The company's arrival in Tokyo brings the total of foreign brokers operating in Japan to 66 branches of 49 securities companies, the ministry said.

ABB confirms Indian purchase

ABB Asea Brown Boveri, the world's largest power engineering combine, yesterday confirmed that it is buying control of a loss-making Indian boilermaker for Rs520m ($16.6m) in a move which will greatly increase its capacity to meet demand for building power plants, writes Stafan Wagstyl in New Delhi.

ABB is taking a 76 per cent stake in ACC-Babcock (ABL), a former private company which came under government control after it accumulated losses and sought legal protection from bankruptcy.

The remaining 24 per cent of the equity will stay in the hands of the government and of minority shareholders.

The government's Board of Industrial and Financial Reconstruction, the body which nurses ailing companies, has approved the deal.

While the purchase price is modest, reflecting ABL's poor recent financial record, the investment marks an increase in ABB's commitment to India because the European company will take on ABL's 5,200 staff, doubling its total payroll in the country to 10,000.

Also, ABB plans to modernise ABL's equipment and introduce new technology.

ABB said the acquisition would allow the group to serve the growing Indian market for industrial and power station boilers.

ABL's products would complement ABB's existing output of turbines and generators.

هكذا من الأصل

People's Republic of China has chosen the Alenia's "Marco Polo" project to send the country flying into the future. Within this perspective, Alenia is producing air traffic control systems, radars and communication equipment, some of which are currently operating and others soon will be installed in 27 Chinese airports. The "Marco Polo" project will ensure the complete safety of air traffic over China, which is expected to increase dramatically over the next few years. There is high regard for Alenia's technological heritage: this is why the company and its products have been recognized by more than 80 countries across the world.

Alenia
A FINMECCANICA COMPANY

INTERNATIONAL CAPITAL MARKETS

McDonald's targets short-dated eurodollars

By Graham Bowley

McDonald's, the US fast-food group, became the latest high-profile US corporate borrower to target the short-dated area of the eurodollar market yesterday.

Elsewhere, Pakistan made a successful debut in the eurobond market, Argentina launched its first offering in the French franc sector and Jordan announced that it had awarded the mandate for a $50m eurobond, marking its return to world capital markets.

INTERNATIONAL BONDS

The European Bank for Reconstruction and Development announced that it intended to borrow up to a net Ecu900m next year in medium to long-term debt. This follows a net Ecu910m borrowed this year, at an average after-swap funding cost of 38 basis points below Libor.

McDonald's launched a $200m issue of two-year bonds, offering a coupon of 8 per cent and priced to yield 18 basis points over US Treasury bonds.

The bonds were sold to retail investors in Switzerland and the Benelux countries, lead manager Morgan Stanley said.

This continues the trend of recent weeks which has seen US companies such as Walt Disney, PepsiCo and Heinz taking advantage of the strong demand from continental European retail investors for short-dated dollar offerings.

Dealers estimate that funding costs in the two-year eurodollar sector are currently around 15 basis points lower than in the US domestic bond market.

Pakistan made its eurobond market debut with the launch of a $150m offering of five-year bonds, which is expected to be be priced today at around 380 to 385 basis points over US Treasuries.

Dealers expressed disappointment that the offering was not $200m as initially rumoured. However, lead manager Bear Stearns said the issue established a liquid benchmark, which is held by institutional investors, and which will trade well in the secondary market.

A syndicate official said that although Pakistan had no immediate plans to tap the eurobond market again, the offering would pave the way for issuance from the country's private sector.

Argentina made its debut in the French franc sector with the launch of a FFr1bn offering of three-year bonds, which is expected to be priced today at around 250 basis points over French government bonds.

ANZ and Paribas are rumoured to have won the mandate to lead manage Jordan's return to world markets, with an issue of seven-year bonds by the state-owned Telecommunications Corporation.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
McDonalds Corp.	200	8.00	99.967R	Jan.1997	0.15R	+18(7¼%-96)	Morgan Stanley & Co.Intl.
Islamic Republic of Pakistan	150	(a)#	(a)R	Dec.1999	0.70R	(a)(WI 5yr)	Bear Stearns International
CBPO	100	12.50#	99.50R	Dec.1997	1.125R	+600(7¾%-97)	Lehman Brothers Intl.
YEN							
Sakura Finance Cayman(b1)★‡	30bn	(b3)	100.00	Mar.2005	undisc.	-	Sakura Fin./ Salomon Bros.
Sakura Finance Cayman(b2)★‡	20bn	(b3)	100.00	Mar.2005	undisc.	-	Nomura/ Sakura Fin.Intl.
FRENCH FRANCS							
Republic of Argentina	1bn	(c)	(c)R	Jan.1998	0.75R	+250(8½%-97)	Société Générale
AUSTRALIAN DOLLARS							
New Sth.Wales Treasury Corp.★	100	4.50#	86.68	Dec.1997	1.375	-	Nomura International
SWEDISH KRONOR							
Sudwestdeutsche LB Cp.Mkts.(I)	450	10.625	99.971R	Feb.1999	0.225R	+23(11%-99)	Merrill Lynch International

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ★Unlisted. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Priced today at 380-385bp over Treasuries. b) Callable on coupon dates from Mar.00 at par. b1) Tranche 1. b2) Tranche 2. b3) 3-mth Libor +20bp to 22/3/00 and +50bp thereafter. c) Priced today. I) Long 1st coupon.

Treasuries rise as data match forecast

By Lisa Bransten in New York and Martin Brice in London

US Treasury prices rose modestly yesterday morning after important economic data came in almost exactly as expected.

By midday the benchmark 30-year government bond was up $\frac{1}{16}$ at 96¼ yielding 7.831 per cent. At the short end of the market, the two-year note gained $\frac{1}{32}$ at 99$\frac{31}{32}$ yielding 7.562 per cent.

Inflation has yet to appear in the prices of final goods, according to consumer price index figures released by the Labour department. In November the CPI grew 0.2 per cent, bringing yearly inflation to 2.7 per cent. Although up from the 0.1 per cent figure for October, it was generally in line with analysts' expectations. The increase was largely due to an uptick in energy prices following two months of decline.

The figures led to a slight reversal of recent yield curve flattening as analysts speculated that the low inflation figures might keep the Federal Reserve from raising interest rates at the December 20 meeting of its open market committee. The spread between the yields of the two-year note and the long bond bounced back near 27 basis points after falling as low as 13 points on Tuesday.

The spread has tightened sharply since mid-November, when the Fed increased the interest rate 75 basis points. A flattening yield curve is viewed as an indicator that market players expect a slowdown.

In spite of the low inflation data, there were signs of economic strength further down

GOVERNMENT BONDS

the economic chain. Data on industrial production showed a 0.5 per cent increase for November with capacity utilisation at 84.7 per cent. Capacity utilisation greater than 85 per cent is generally thought to be a signal of future inflation, but the market had anticipated such a figure.

■ UK government bonds took a positive tone from a raft of UK economic data, and outperformed German government bonds yesterday as the yield spread over bunds tightened from 126 to about 118. Mr Kevin Gardiner at Morgan Stanley said gilt performance was driven by short covering in the Treasury market, and said the market might have underestimated the significance of employment data. He said: "The inflation and labour market data suggest that the phoney war against inflation is over and the real battle is about to commence."

The December long gilt future moved up $\frac{13}{32}$ to about 101$\frac{15}{32}$ in late trading.

■ German government bonds lagged the rise in the US, with the spread under Treasuries tightening from 48 basis points to 43 in slow trading. Ms Alison Cottrell at Kidder Peabody said the eyes of investors would now be on the Federal open markets committee meeting in the US on Tuesday. Ms Jane Berryman at Technical Data said bund investors would be following closely the coming wage round, which may be inflationary as trade unions might adopt aggressive negotiating tactics to halt falling membership. The March bund futures contract on Liffe rose by 0.05 on the day to 89.74.

■ Italian bonds rose yesterday, leaving the March bond futures contract on Liffe around 98.69 in late trading, a rise of 0.03. Mr Corrado Costantino at Williams de Broë said the bottom of the current political crisis had not yet been reached. He said: "We will have a lot of problems about who will form the next government."

Borrowings raised ante in Orange County debacle

The Orange County, California, municipal investment fund facing more than $2.5bn in losses after losing a highly leveraged bet on the direction of US interest rates, did not need derivatives to snarl its portfolio. The fact that the Orange County treasurer borrowed $12.5bn from securities dealers to lift the ante on its bet ensured the fund would have had devastating losses as interest rates rose, even if its purchases were confined to conventional US Treasury notes.

However, it is interesting that Orange County and a host of other US municipalities, money market funds and pension plans have found a way to tuck some highly volatile interest-rate derivatives into their portfolios while assuring their constituencies that they only invest in triple A rated US government-backed debt.

This little deception has become far more transparent in the light of the Orange County debacle, and is rapidly changing a long-held view that government-backed debt is completely risk free. While the current debate centres on debt issued by US government agencies, the discussion can easily be extended to the international arena by examining the paper issued by the international development agencies.

In the US, government agencies such as the Federal Home Loan Bank Board and publicly-held corporations that package loans backed by US government guarantees, such as the Federal National Mortgage Association (Fannie Mae) and the Student Loan Marketing Association (Sallie Mae) are massive borrowers whose outstanding debt is second only to the US Treasury.

Their government guarantees assure these agencies very low borrowing costs, but a number of them, seeking to lower costs further, have followed the suggestions of the Wall Street dealers who act as their salesmen and issue securities with imbedded features that make returns highly sensitive to interest rate movements.

The derivative instruments, commonly known as "structured notes," offer the same kinds of risks and rewards that

DERIVATIVE INSTRUMENTS

are available by purchasing contracts on listed futures and options exchanges. However, because they carry the credit guarantee of the US government, and can be classified in investment portfolios as generic "government securities," they are often purchased by funds that would never be allowed to speculate in high-risk instruments such as futures and options.

In the case of the Orange County fund, investment guidelines were so conservative that even purchases of conventional shares were prohibited. However, that did not stop Mr Robert Citron, Orange County treasurer, from investing billions of dollars in agency structured notes. In several cases it appears the fund bought entire agency issues tailored directly to Orange County's specifications.

Orange County officials said on Tuesday that approximately $8bn remained in the municipal fund, but that about $2.5bn was still pledged to dealers as collateral, reducing equity to about $5.4bn. That compares with the $7.4bn initially put up by the town and municipal agencies that are investors.

Of the securities remaining in the municipal fund, about 60 per cent are structured notes consisting primarily of "inverse floaters," which have coupons that fall as interest rates rise. With the Federal Reserve poised to raise interest rates, these securities are barely marketable, although Salomon Brothers has been retained to achieve an "orderly" liquidation of the portfolio.

The California municipal fund did not blindly stuff its portfolio with inverse floaters. Mr Citron was a sophisticated investor who knew that these volatile instruments could reap his county higher yields than conventional investments. He, like many other money managers, successfully pursued risk in exchange for higher returns for much of the past five years.

That the agencies have entered the business of issuing derivatives is only mildly surprising. Mr Gene Eisman, a spokesperson for Fannie Mae, explains it simply: "We are a very large borrower of funds to serve the mortgage markets in the US," he says. "Our main mission is to provide affordable housing to low and middle-income families in the US. Structured notes are just one more tool in the quiver of things we use to accomplish this."

Fannie Mae says just 3 per cent of the $435bn in debt it issued last year was structured notes. The Federal Home Loan Bank has about $55bn in structured notes outstanding, or 31 per cent of its total debt.

To avoid another debacle, it has been suggested that the government should stop endorsing, or guaranteeing, credit on derivative debt issued by the agencies. This would take substantial courage on the part of legislators, since the new budget-conscious Congress will need every trick to reduce borrowing costs.

Laurie Morse

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.500	09/04	92.0400	+0.630	10.31	10.17	10.61
Belgium		7.750	10/04	96.0200	-0.020	8.35	8.24	8.23
Canada *		9.000	12/04	99.0000	+0.300	9.15	9.01	9.04
Denmark		7.000	12/04	88.6200	-0.180	8.76	8.65	8.75
France	BTAN	8.000	05/98	100.9400	+0.120	7.27	7.27	7.47
	OAT	7.500	04/05	95.8800	-0.030	8.10	7.94	8.11
Germany Bund		7.500	11/04	99.9800	-0.030	7.50	7.40	7.40
Italy		8.500	08/04	80.1700	-0.110	12.08†	11.70	11.59
Japan	No 119	4.800	06/99	103.6400	-	3.82	3.91	4.04
	No 164	4.100	12/03	96.9800	-0.090	4.56	4.61	4.72
Netherlands		7.250	10/04	97.1400	+0.040	7.67	7.62	7.49
Spain		10.000	02/05	90.2000	-0.200	11.35	11.19	11.16
UK Gilts		8.000	08/99	90-16	+3/32	8.50	8.49	8.45
		8.750	11/04	88-10	+11/32	8.52	8.57	8.59
		9.000	10/08	104-00	+14/32	8.50	8.51	8.59
US Treasury *		7.875	11/04	100-23	+19/32	7.77	7.80	7.81
		7.500	11/24	96-04	+16/32	7.84	7.90	7.95
ECU (French Govt)		6.000	04/04	84.1400	+0.400	8.52	8.53	8.47

London closing, *New York mid-day. Yields: Local market standard. † Gross (including withholding tax at 12.5 per cent payable by nonresidents) Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

[illegible]

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	111.46	111.94	+0.38	112.06	111.44	145,054	45,927
Mar	110.78	111.24	+0.36	111.36	110.74	57,744	104,838
Jun	110.02	110.64	+0.46	110.02	110.02	2	2,810

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

[illegible]

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	88.76	88.73	+0.04	88.87	88.56	78616	173314
Jun	89.10	89.11	+0.04	89.10	89.10	229	884

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

[illegible]

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.66	98.68	+0.02	99.08	98.60	25143	44239
Jun		97.98	+0.03			0	20

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

[illegible]

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	86.45	86.43	-0.06	86.60	86.38	32,709	57,042
Mar	85.75	85.83	-0.11	85.85	85.75	5,954	20,265

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	102-02	102-20	+0-13	102-24	102-00	1097	18603
Mar	101-13	101-30	+0-13	102-05	101-10	51072	107878
Jun		100-30	+0-13			0	0

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

[illegible]

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	80.96	81.30	+0.36	81.30	80.88	3,878	3,514

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	100-00	99-30	-0-03	100-10	99-28	33,979	72,760
Mar	99-14	99-13	-0-02	99-24	99-08	401,057	328,122
Jun	99-02	99-00	-	99-11	98-29	1,185	12,601

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	108.62			108.82	108.54	2647	0

* LIFFE contracts traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price indices UK Gilts	Wed Dec 14	Day's change %	Tue Dec 13	Accrued interest	xd adj. ytd
1 Up to 5 years (24)	119.84	+0.07	119.76	2.16	10.34
2 5-15 years (22)	140.14	+0.30	139.72	1.99	12.29
3 Over 15 years (8)	157.61	+0.51	156.81	2.46	12.05
4 Irredeemables (6)	179.28	+0.59	178.24	1.55	13.71
5 All stocks (60)	137.38	+0.26	137.02	2.11	11.69
Index-linked					
6 Up to 5 years (2)	186.77	+0.07	186.64	1.02	5.07
7 Over 5 years (11)	173.41	+0.14	173.16	1.02	4.81
8 All stocks (13)	173.91	+0.13	173.68	1.02	4.82
Debentures and Loans					
9 Debs & Loans (77)	129.32	+0.20	129.06	2.12	10.90

[illegible]

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Dec 14	Dec 13	Dec 12	Dec 9	Dec 8	Yr ago	High*	Low*
Govt. Secs. (UK)	91.85	91.49	91.89	92.09	91.85	103.69	107.04	89.54
Fixed Interest	108.52	108.49	108.75	108.87	108.48	130.35	133.87	106.50

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Dec 13	Dec 12	Dec 9	Dec 8	Dec 7
Gilt Edged bargains	100.6	106.1	90.7	95.4	120.6
5-day average	102.7	101.8	99.0	101.0	106.1

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on December 14

[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. [illegible] CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. [illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

Trafalgar House stalks Northern Electric

Michael Smith says that a hostile bid for an electricity utility has political ramifications as well as stirring up an already agitated sector

Trafalgar action puts all recs on defence alert

Until yesterday the received wisdom among executives of the England and Wales regional electricity companies was that they were safe from hostile predators. "There are not enough costs left to be cut out to make it worthwhile for an aggressor to pay a hostile bid premium," said one chief executive yesterday morning.

Trafalgar House, the engineering and construction group, is not convinced, as its afternoon statement confirmed. And if it goes ahead with the takeover bid it has been considering for Northern Electric, it will be upsetting more than just the sector executives' sense of security about remaining independent.

The repercussions of a bid will be felt far beyond the north-east of England which is the electricity company's base and far beyond the sector. There are significant political implications of a bid, with debates between Labour and the Conservatives over power privatisation growing.

Yesterday, shares of all 12 regional electricity company rose strongly as analysts and investors digested the implications of the first moves towards a contested takeover in the sector since it was privatised four years ago.

Other companies considered vulnerable to takeovers included Swalec, serving south Wales, Sweb, serving the south-west, Seeboard, based in the south-east, and Cheshire-based Manweb.

With one prospective hostile bidder already having shown its hand, others are more likely to emerge, either to enter the fray for Northern, or to focus on another target before it is swallowed up. Potential bidders could include US utilities seeking a stream of earnings outside their own tightly regulated areas or UK conglomerates such as Hanson.

The 12 companies may feel forced into each other's arms. Most industry executives would prefer to get together with another rec, rather than face the risk of a non-sector company taking them over. The urge to merge may become overwhelming for some.

But a second line of defence will be to accelerate the process of passing out any "hidden value" in the companies to shareholders before a hostile predator promises to do it for them. This makes an intensification of cost-cutting and job shedding inevitable.

It also increases the likelihood, already strong, that the National Grid will be floated next year. Many analysts believe that the Grid's value is not yet fully reflected in the 12 companies' share prices and will not become so until it is fully demerged from their ownership.

All of these developments will take place in the full public glare. The Labour Party has sensed that it can win votes through its attacks on electricity privatisation and has been on the attack this week over job losses and the National Grid flotation, which it says will benefit rec shareholders greatly but customers and the taxpayer far less.

The government's inclination will be to intervene in electricity as little as possible and to let the market decide on the future of the electricity industry. However, its ownership of a golden share in each of the recs and the National Grid until April 1 means that it has the power to intervene, and Labour may challenge it to do so.

Even after the golden share ends, the government may have to confront wider competition issues if merger mania leads to widespread consolidation of the industry. By some estimates, today's 12 companies could shake down into four or five super-utilities, possibly owning regional water and gas companies as well.

The role of Professor Stephen Littlechild, the electricity industry regulator, will also come under close public scrutiny.

In the eyes of the Labour Party he is one of the villains of the piece, since it is under his regulation that the recs have been able to become so profitable and therefore so attractive to predators.

There are likely to be calls on Prof Littlechild to ensure that consumers are protected, for example by ring-fencing cash piles accrued by the recs so that bidding companies cannot take it out for non-electricity purposes.

But like the government, Prof Littlechild is a strong believer in the market and is unlikely to want to intervene simply to preserve the industry structure introduced at privatisation in 1990.

The structure was inherited from pre-privatisation days. The government considered various options, but in the end decided to privatise the regional electricity structure as it was. The 12 area boards thus became 12 regional companies.

"The whole industry was being changed," said one former government adviser yesterday. "We were breaking up the Central Electricity Generation Board but the area distribution structure seemed not unreasonable because it had been developed over a number of years."

If the government's decision against reforming the regional electricity structure has proved uncontroversial, the same cannot be said of the price regulation it put in place.

Even the executives of the companies acknowledge, in retrospect, that the targets for cutting prices in the distribution businesses which provide their main income have proved to be extremely lax.

The companies have been able to cut costs by far more than they expected, largely through implementing reductions in workforces of more than 25 per cent on average. Distribution prices have meanwhile been able to rise.

The result is that the companies have become considerably more profitable than they were intended to be and have been able to accrue large cash piles. The sector's shares have performed better than any other in the past four years.

Nor is the share price growth expected to end there. Prof Littlechild is widely viewed to have missed the opportunity to rein in the companies' profitability in the regulatory review he announced in August, and which is to be implemented next April.

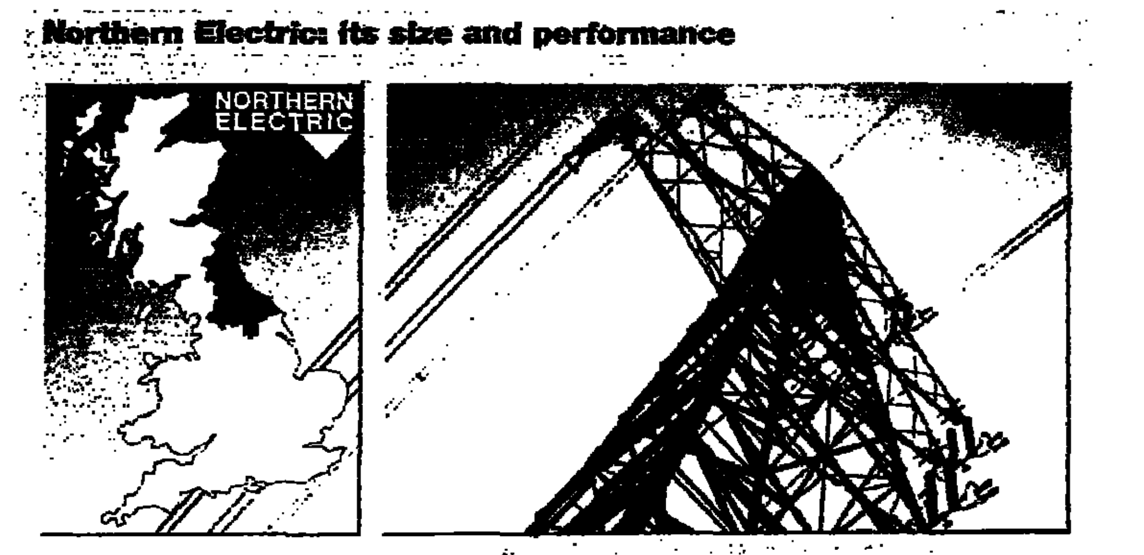
Stockbrokers' analysts believe that virtually all companies will be able to increase their dividends by about 8 per cent a year in real terms for the next four years at least.

In the current results season, rises of more than 20 per cent have been the norm. In utility stocks dividend growth is one of the key assessment criteria.

All of this means that even following recent share price rises, many stockbroking analysts have been advising their clients to buy at least some of the companies in the sector.

Whichever predators move into the sector, they will have to reckon with a steadily toughening competitive climate. Prof Littlechild is liberalising the electricity market so that by 1998, all the regional barriers will be gone and each distributor will be able to sell wherever he likes. No country in the world will have such an open electricity market, and the uncertainties will be considerable.

Northern Electric: its size and performance



Share price % rise between 1-14 December 1994		Market capital (£bn)	Customers (million)
London	11.21	1.61	1.94
SEEBOARD	20.92	1.16	1.95
Southern	11.02	2.14	2.53
South Western	21.29	1.04	1.27
SWALEC	8.53	0.94	0.93
Manweb	9.78	0.99	1.32
Eastern	13.19	1.97	3.09
East Midlands	4.11	1.46	2.20
Midlands	11.67	1.70	2.16
NORWEB	5.82	1.36	2.13
Yorkshire	9.94	1.85	2.00
Northern	39.89	1.25	1.42

■ NORTHERN ELECTRIC: By David Lascelles

A logical target and digestible, but easy game?

Why, with 12 regional electricity companies to choose from, has Trafalgar House fixed its sights on Northern Electric?

The choice came as no surprise to the electricity industry, where Northern has long been seen as the prime takeover target.

Its relatively small size makes it readily digestible – though at last night's stock market close it was worth £1.25bn – and a reputation for lacklustre management would attract predators who think they can do better.

Another reason could be that Trafalgar has a large presence of its own in north-east England, which Northern serves from its base in Newcastle. But the key question is whether Northern is really as vulnerable as the market thinks.

Much of Northern's reputation is based on financial analysts' personal impressions of Mr David Morris, the chairman, and his executives, who come across as rather stuffy and remote.

The company has also been less aggressive than some of its southern rivals in cutting costs, and though this week's results showed profits up 20 per cent and the dividend up 16 per cent, this was only average in an industry famous for spectacular numbers.

Northern has also bought back a chunk of its shares, and reduced its debt, which puts it in a strong financial position. But, again, this is standard practice in the industry.

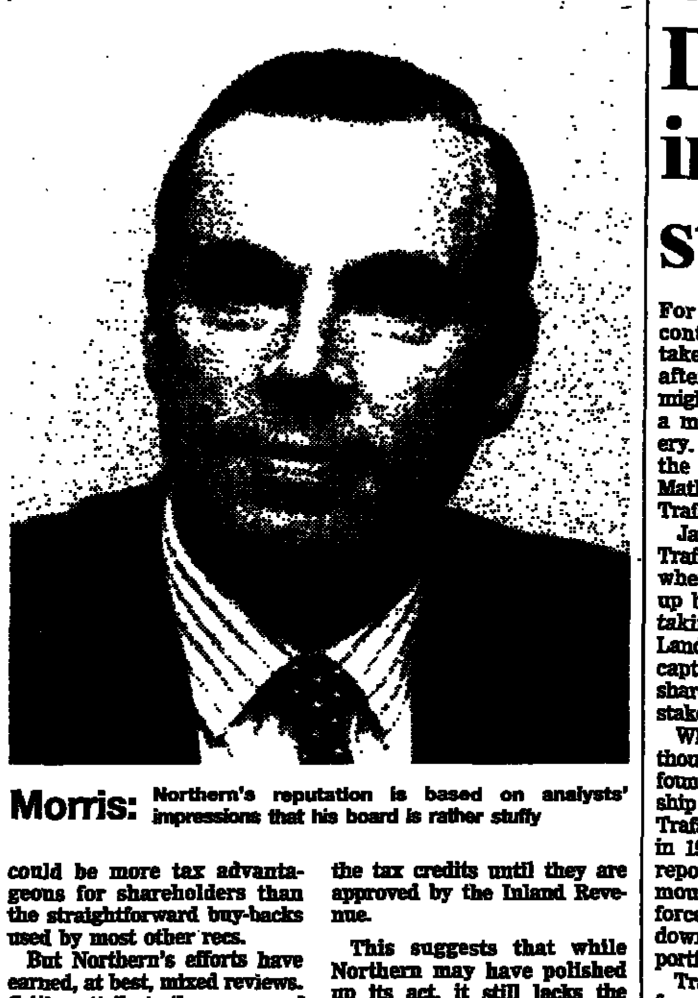
Against that, though, Northern has taken a number of bold steps which have marked it out from the pack, and caused some analysts to adjust their views.

The most conspicuous was its decision to expand outside its region and sell electricity to big commercial and industrial customers.

Northern now has the largest supply business of any rec: it sells electricity to nearly 200 Marks and Spencer stores around the country, for example. In the last six months it boosted these profits by £10m.

Like other recs, Northern has also expanded into the gas business. But rather than just act as a distributor, it went a stage further and bought a share in a North Sea gas field in partnership with Neste, a large Finnish energy company. With other recs now complaining that they are being squeezed in the gas market, Northern has access to its own gas and could therefore be in a stronger position.

In September Northern took another innovative step by offering to buy back its shares through an agent rather than directly, a technique which could be more tax advantageous for shareholders than the straightforward buy-backs used by most other recs.



Morris: Northern's reputation is based on analysts' impressions that his board is rather stuffy

But Northern's efforts have earned, at best, mixed reviews. Critics attribute the success of the supply business to the fact that electricity generation prices have been capped by the regulator – but only temporarily. When the cap comes off, Northern could find itself marooned by rising prices. Similarly, some analysts are reserving judgment on the gas strategy because of the uncertainties in the market, and on the tax credits until they are approved by the Inland Revenue.

This suggests that while Northern may have polished up its act, it still lacks the credibility enjoyed by some other rec managements who have persuaded the markets that they really know what they are doing.

But Northern will fight a bid, and it clearly thinks it has done sufficiently well by both its customers and shareholders to be able to count on their backing.

■ TRAFALGAR HOUSE: By David Wighton

Deep pockets in search of stable profits

For a company to be contemplating a £1bn-plus takeover bid only two years after it nearly went under might appear to be evidence of a miraculous corporate recovery. But it has more to do with the deep pockets of Jardine Matheson than a turnround at Trafalgar House.

Jardine dropped anchor off Trafalgar at the end of 1992, when the conglomerate built up by Sir Nigel Broackes was taking on water. Hongkong Land, Jardine's property arm, captured 15 per cent of the shares and later increased its stake to 25 per cent.

Whatever the Jardine camp thought at the time, it soon found itself at the helm of a ship that was sinking rapidly. Trafalgar had incurred losses in 1991, although it originally reported a profit, and these mounted in 1992 as it was forced to make heavy write-downs on its large property portfolio.

Trafalgar had raised £310m from a rights issue at the time of its ill-fated acquisition of Davy Corporation in 1991 and a further £204m in March 1993. But the write-downs, as well as provisions against the value of its Cunard cruise ships, the Ritz hotel and Davy's Emerald North Sea rig, left its balance sheet badly holed. Exactly a year ago, Trafalgar announced the terms of a convertible preference share issue to raise £400m. Trafalgar is now valued at £1.2bn, only £200m more than investors have injected over the past three years.

Jardine now calls the shots at Trafalgar and Mr Simon Keswick, whose family controls Jardine, took over as chairman in 1992.

During the 1960s and 1970s, Trafalgar bought a wide range of companies such as Cunard, the Ritz and the Express newspaper group (floated off in 1982). In the 1980s, it became the world's fourth largest engineering and construction contractor with acquisitions including Redpath Dorman Long, Scott Lithgow, John Brown and, ultimately, Davy.

But after Trafalgar recorded profits of £266m in 1989, the recession nearly snuffed it out. Over the past three years, it has lost almost £400m before tax. Trafalgar's tax losses and unrelieved advance corporation tax could shelter a large part of Northern Electric's profits.

Mr Nigel Rich, the Jardine man installed as chief executive in August, is likely to argue that Northern's stable profits stream will offset Trafalgar's highly cyclical earnings. Trafalgar's other shareholders may not see it quite that way. Many bought into the shares as a play on cyclical recovery, which is yet to come, and may not wish to see that diluted by Northern's utility profits.

Rich: likely to argue that Northern's stable profits stream will offset Trafalgar's highly cyclical earnings

Mr Gavin Launder, an analyst at Goldman Sachs, commented: "It may be a sensible move for Jardine but it is hard to see how it is very good news for Trafalgar House."

Though some overseas opportunities may be opened by combining Trafalgar's electrical engineering skills with Northern's expertise in power generation and distribution, the business fit is minimal.

For Jardine, a takeover of Northern would be a way to exchange Hong Kong cash for UK profits.

Given Northern's strong cash generation, a large part of the purchase price could be funded by debt. The rest is expected to be met from the proceeds of a share issue, probably of convertible preference shares, underwritten by Hongkong Land. Some shareholders yesterday voiced concern that this might allow Hongkong Land "to buy control on the cheap". But they also recognise that without Jardine, Trafalgar might by now have gone to the breakers' yard.

■ THE INSTITUTIONS REACT: By Peggy Hollinger

Suspicions on both sides about the motives of Hongkong Land

Trafalgar House could face an uphill struggle if it decides to bid for Northern Electric. The resistance is not, as one might expect, only going to come from Northern's shareholders, but from its own investors.

They are deeply suspicious of the motives behind Trafalgar's interest, in spite of the obvious tax benefits the company would derive from a UK earnings stream.

Some fear Trafalgar could become a pawn in the political games being played by its major shareholder, Hongkong Land, the property arm of Jardine Matheson. Jardine has been anxious to invest its funds internationally in advance of the transfer of Hong Kong to China in 1997.

"One has to ask if one is acquiring a stream of earnings and cash flow which is beneficial to Trafalgar House or to Hongkong Land," said one investor.

The dilemma is intensified for shareholders who have been in Trafalgar for some time. "Trafalgar has been a poor investment," said one institution. "Yet Hongkong came in and rescued the company. Perhaps this is the price we have to pay for Trafalgar not going bust."

Some feared that any arrangement to fund a bid could allow Hongkong Land to acquire outright control without making a full offer.

"I am positive that Hongkong Land will end up owning the majority of Trafalgar," said an institution. "And they will have bought the company on the cheap."

However, he was resigned to such an outcome. "If a Trafalgar without Hongkong Land were still solvent, and were bid for, it is unlikely the bidder would have to pay a premium."

For Northern's shareholders, any approach from a company with Trafalgar's track record would probably be unwelcome.

A paper offer appears out of the question. "That would in effect be a disguised rights for Trafalgar and we would not support that," said a Northern Electric investor.

A cash bid would have to take account of the long-term value offered by utilities, and the high quality of earnings they provide. This means that a cash offer would have to be substantially in excess of last night's 1010p closing share price.

There is a further complication in that most of the institutions are not even sure themselves what the right value should be for Northern shares.

For example, there is substantial value yet to be realised from the flotation of the National Grid, which is estimated to be valued at more than £4bn. Northern's share could be worth more than £260m, of which a substantial proportion would find its way to investors.

Most of the electricity companies have been in an extended closed period, due to discussions on the National Grid and the results season. "They have not really been able to talk freely with shareholders," said one investor. "So it is difficult for institutions to be sure of the value to be given to such issues."

Value might not be such an insurmountable obstacle, however. "It is possible that in its efforts to move funds out of Hong Kong, the Jardine empire might be willing to pay more for Northern, on the basis of strategic reasons, than other companies might for industrial reasons," one shareholder said.

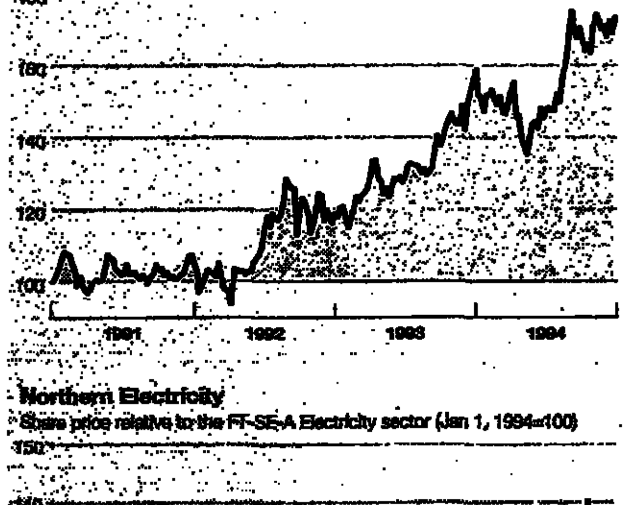
But most investors might find an approach from a fellow utility – such as Scottish Power – easier to take. "One could stay in the sector and reap the obvious operational benefits," an institution said.

Another investor thought this was the most likely scenario and said he expected "a third party to enter the frame."

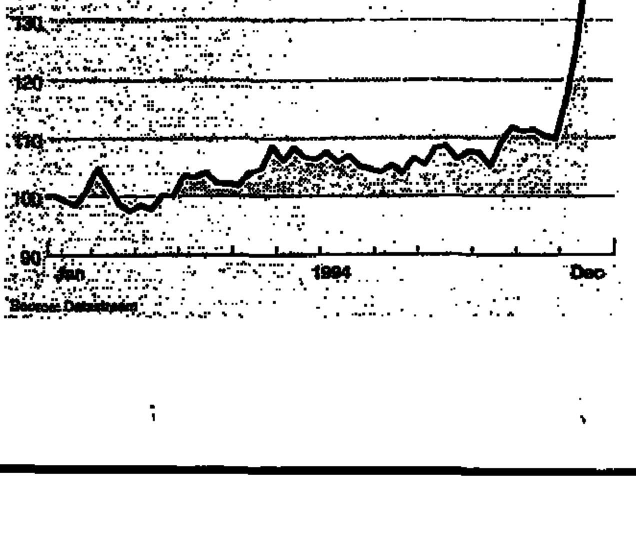
This is perhaps the most significant effect of yesterday's announcement. "The company has been put into play, there is no doubt about that," Mr Kevin Lapwood, of brokers Smith New Court said. "The chances of it being independent in six months' time are very slim."

The share-price power surge

Electricity sector
Relative to the All-Share (FT-SE-A Indices) Jan 1, 1994=100



Northern Electricity
Share price relative to the FT-SE-A Electricity sector (Jan 1, 1994=100)



Source: Datastream

■ WHAT IT MEANS FOR INVESTORS

Sid in middle of an unfamiliar battleground

If Trafalgar House goes ahead with its bid, it would mark the first takeover of one of the more than two dozen utility companies which have been privatised over the last 10 years, writes David Lascelles.

Sid, the proverbial private, first-time investor, who bought many of these stocks, could therefore find himself in the thick of an unfamiliar battle.

As of last June, Northern had 123,000 shareholders, more than 97 per cent of whom held fewer than 1,000 shares. But though they represent the numerical majority, their tiny holdings mean that they account for only 20 per cent of the vote.

Nearly 80 per cent is held by big investment institutions. The government only holds one share, but that is an overriding golden share which will expire next March.

While Sid's relatively small holding means that he would play only a minor role in a takeover battle, the bidder's financial advisers will have to take account of his unfamiliarity with bid procedures.

His presence could also sharpen political controversy over the bid if, as seems likely, Labour uses it to have a go at the alleged financial excesses of the electricity companies.

So far, only two well-known privatised companies have been subjected to takeovers: Britoil and Jaguar, and in neither case did the government use its golden share to block them.

Sid has done well out of Northern. He paid 240p for the shares at privatisation in early 1990, and last night they stood at more than £10.

He has also recouped a third of his original outlay in dividends.

Distributor has no plans to merge with other recs as speculation boosts shares

Restructuring leaves Manweb lower

By Michael Smith

Mr John Roberts, chief executive of Manweb, said yesterday the electricity distributor had no plans to merge with other regional companies. "Our aim is to remain an independent business," he said, announcing the first-half results.

The Chester-based company reported a 40 per cent increase in the interim dividend, in spite of a sharp decline in pre-tax profits and turnover.

In common with other companies in the sector it saw a strong rise in its share price – up by 51p to 831p – although much of the increase was due to speculation about bids and mergers.

Mr Roberts said Manweb was on track to cut jobs in the main distribution business by 150 during the year. This would contribute to a 500 reduction in the five years to 1997. Annual costs of £20m would be taken out by then.

Pre-tax profits in the six months to September 30 fell by 58 per cent from £54.9m to £23.2m on turnover lower at £394m, compared with £437m.

The result was struck after exceptional costs including a £21.3m restructuring provision.

Mr Roberts said Manweb planned, along with other recs, to demerge its full holding in the National Grid, assuming flotation went ahead.

Earnings per share were 13.9p, compared with 34.1p, and the interim dividend advances from 7p to 9.8p.

The dividend rise is the second highest in the sector so far. The company said it was partly the result of rebalancing interim and final payments. The underlying increase was about 15 per cent.

The company said profits before interest, restructuring and debt redemption costs increased from £43.3m – also excluding one-off items – to £56.2m.

Manweb attributed the 10 per cent fall in turnover to a 13 per cent reduction in supply business sales, where margins were tight. In the distribution business, turnover rose 7 per cent to £126m.

The company is introducing price cuts of 2 per cent for domestic customers from January 1.

It is also introducing a £6.8m energy efficiency scheme in Knowsley, Merseyside, putting up half of the investment with the EU providing the balance.

Mr Roberts said Manweb would pay up front for installation on customers' premises for energy saving technology. "By sharing the savings with the customer we will receive a commercial return on our investment."

London Electricity sees rising pay-outs

By David Lascelles, Resources Editor

London Electricity yesterday promised its shareholders steadily rising dividends as it announced a 22 per cent increase in profits.

The company made £85.3m before tax and exceptional items in the six months to September 30, against £69.9m. Exceptionals took in a £33m provision for restructuring over the next three years and £9.5m to cover the premium incurred on the repurchase of government debt. Underlying earnings per share improved 25 per cent to 30.1p (24p).

Sir Bob Reid, chairman, said the company was "in good shape" with strong improvements in trading volumes and continuing efficiency gains. The interim dividend is raised 28 per cent to 9.8p; allowing for the buy-back of shares earlier this year, this amounts to an underlying increase of 20 per cent.

Of the improvement in profits, £5.2m came from higher distribution income and £5m from reductions in distribution operating costs. The supply business transformed last year's loss of £800,000 into an operating profit of £1m. Mr Roger Urwin, chief executive, said a sizeable contribution had come from the networks at London's three airports which the company bought for £90m.

Overall operating costs were down 6.8 per cent. The company shed nearly 400 jobs – about 8.6 of the total – and expects to lose another 300 in the second half.

The total number of units distributed rose 2.6 per cent, with the biggest rise – 3.6 per cent – coming from the commercial sector.

Mr Urwin said that dividend cover could be reduced and this, when combined with potential earnings growth, gave scope for "attractive real dividend growth".

Next April will see the start of the new price regulations which will produce a cut of 5 per cent in real terms for customers, and cost the company £89m in revenues over a year. Mr Urwin said that the company disagreed with the way Offer, the regulator, had calculated the new price formula. "But it is a challenge and we have to meet it."

Sir Bob said he remained confident about prospects. "The key economic indicators continue to look encouraging for London and we fully expect to be one of the principal beneficiaries."

The company would be looking for new opportunities to expand the business, such as the airports deal. But it was also casting its eye abroad for electricity distribution projects.

Success of cider brands helps Bulmer to £14m

By Roderick Oram, Consumer Industries Editor

Cider brands of HP Bulmer Holdings enjoyed faster growth than the market as whole, allowing the Hereford-based producer to report a sharp jump in underlying interim profits.

Pre-tax profits for the six months to October 28 increased to £14.2m. The year ago figure of £2.66m was depressed by a £9.35m charge for disposing of a lossmaking business.

Underlying profits rose 19 per cent, while operating profits from continuing operations grew 5 per cent to £15.5m.

Turnover slipped to £130m (£139.5m) but excluding disposals there was a 7 per cent rise.

Capital investment, cost cutting, and brand developments would spur further progress, Mr Esmond Bulmer, chairman, said.

Bulmer, the market leader, introduced three new products yesterday to capitalise on the trend to premium ciders: Scrumpy Jack Old Hazy, a cask conditioned cloudy cider, Strongbow Ice, the first ice cider, and Strongbow Lemon White, a flavoured cider for Australia.

The interim dividend is raised to 4.25p (4p).

Earnings per share of 17.31p compared with losses of 1.42p including exceptionals or earnings of 14.94p before.

Bulmer said the UK cider market grew by 8 per cent to 95.5m gallons in the year to September. On-trade expanded by 5 per cent, while Bulmer's share rose 8 per cent to 50.1 per cent. The off-trade increased by 12 per cent, with Bulmer growing by more than 20 per cent in the premium and economy sectors, but slipping in private label and edging ahead in mainstream brands.

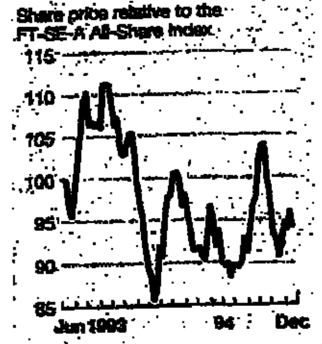
Mr John Rudgard, chief executive, said Bulmer hoped to complete soon agreements with Heineken in the Netherlands and Interbrew in Belgium to distribute its ciders to the on-trade in those countries.

Bulmer has a continental toe-hold through Stassen, Belgium's leading cider maker, which it bought in 1992.

Further investment in Stassen should begin to show results this year, although profits dipped in the first half, the company said.

HP Bulmer

Share price relative to the FT-SE-A All-Share Index



Source: FT Graphics

Purchases bolster Robert Wiseman

By David Blackwell

Acquisitions have driven both operating profits and turnover sharply up in the first half at Robert Wiseman Dairies, the Scottish liquid milk processor and distributor floated in March.

Pre-tax profits for the six months to October 1 improved to £2.95m, against £2.62m last time when there was an exceptional gain of £327,000 on a disposal. Operating profits were up 21 per cent at £3.02m (£2.48m) on sales 71 per cent ahead at £49.4m (£28.9m).

Wiseman has concentrated on supplying liquid milk in cartons and plastic bottles to supermarkets and shops. Like-for-like sales were 15 per cent ahead as the consumer trend away from doorstep deliveries continued.

Mr Alan Wiseman, chairman, said the group had been "through the pain barrier of losing doorstep business", which now accounts for just 10 per cent of turnover, and was confident about progress in the current half.

Earlier this year the group acquired two Scottish dairy companies, paying £3.2m for Mackies in April and £8.1m for Kennerty Farm Dairies in May. Mackies contributed £4m to turnover in the period, while Kennerty contributed £12m.

Net margins fell from 8 per cent to 6.1 per cent, reflecting the lower margins at Kennerty. Since the acquisition, Wiseman has made £4m of disposals with a possible £2m more expected from the sale of an Edinburgh site.

Capital expenditure this year is expected to be £9m, including £5m towards a new dairy in Manchester, as the group moves into the English market.

Mid-way gearing was 45 per cent, a level the group is comfortable with. It had £7.5m net cash immediately after flotation.

The interim dividend of 0.9p is payable from earnings of 3.24p per share. The shares closed unchanged at 100p.

Stoddard warns of flood damage costs

By James Buxton, Scottish Correspondent

Stoddard Sekers, the carpet maker, yesterday issued a profits warning as a result of flood damage at one of its plants caused by last weekend's rainfall, the heaviest recorded this century in the west of Scotland.

The shares fell 4p to 28p.

The plant in Kilmarnock, Ayrshire, was not insured against flood damage after a professional risk assessment concluded in 1992 that such risk was low. Defences at the plant had been improved after a severe flood in 1961.

Stoddard Sekers said its preliminary estimate was that the exceptional cost relating to the uninsured element of stock and lost production was not likely to exceed £1.5m. In 1993 it made pre-tax profits of £2.14m. Analysts had been expecting pre-tax profits of about £2.5m in 1994.

The BMK plant, which weaves material for Axminster carpets for the group's contract carpet market, was flooded to a depth of 4ft on the night of December 10 when the Annick Water overflowed its banks. The defences installed after the 1961 flood were left 2ft below the high water level.

Stoddard Sekers said last month that the contract carpet order book was healthy. Mr Ralph Ellis, chief executive, said yesterday that the Kilmarnock plant would be fully operational by the end of February.

Acquisitions help lift Chemring to £6.5m

By Geoff Dyer

Acquisitions helped Chemring, the maker of anti-missile decoys, marine distress products and protective clothing, increase pre-tax profits by 14 per cent in the year to September 30.

The outcome of £6.49m (£5.71m), achieved on turnover up 35 per cent at £53.1m (£39.4m), absorbed redundancy costs of £173,000 which had led to a 2.3 per cent fall in interim profits. Operating profit on continuing business was up 8 per cent at £6.28m (£5.8m), on turnover 25 per cent higher at £49.3m.

Mr Philip Billington, chairman, said that all the group's businesses had shown growth.

The group acquired Kembrey, a maker of electronic marine search products and cable harnesses, in September for £4.8m, Hutchwilco, a New Zealand supplier of buoyancy aids, in May for £1.5m and Nova Marine Systems, a manufacturer of electronic marine search products, for £1.1m in April. As a result, the proportion of turnover from the defence sector fell from 60 per cent to 41 per cent.

A 1-for-10 open offer in August raised £5.5m to pay off debt used for the acquisitions.

Earnings per share increased to 21.3p (19.3p). The final dividend is 6.56p, making 9.8p (9p) for the year.

PUBLIC WORKS LOAN BOARD RATES

Effective December 13

Years	Quota loans* 'Lower' quota rates EIP†	AI††	maturity§	'Higher' quota rates EIP†	AI††	maturity§
1			6⅞			6⅞
Over 1 up to 2	7⅛	7⅛	8⅛	7¼	7¼	8¼
Over 2 up to 3	7¾	7⅞	8½	7⅞	8	8⅝
Over 3 up to 4	8¼	8¼	8⅝	8⅜	8⅜	8¾
Over 4 up to 5	8½	8½	8¾	8⅝	8⅝	8⅞
Over 5 up to 6	8⅝	8⅝	8¾	8¾	8¾	9
Over 6 up to 7	8⅝	8⅝	8⅞	8¾	8¾	9
Over 7 up to 8	8¾	8¾	8⅞	8⅞	8⅞	9⅛
Over 8 up to 9	8¾	8¾	8⅞	8⅞	8⅞	9⅛
Over 9 up to 10	8¾	8¾	8⅞	8⅞	9	9⅛
Over 10 up to 15	8⅞	8⅞	8⅞	9⅛	9⅛	9⅛
Over 15 up to 25	8⅞	8⅞	8⅝	9¼	9¼	9
Over 25	8⅝	8⅝	8⅝	9⅛	9	9

*Non-quota loans A are 1 per cent higher and non-quota loans B 2 per cent higher in each case than quota loans. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

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Shares rise 11½p on a deal expected to be worth millions of dollars

VideoLogic to play with NEC

By Alan Cane

VideoLogic, the small multimedia company, has signed a development agreement expected to be worth millions of dollars with NEC, the Japanese electronics group, after a breakthrough which could revolutionise the computer games business.

Neither VideoLogic nor NEC would comment on the value of the deal, but the total will include an immediate payment and royalties on sales of the system.

The news boosted VideoLogic's shares, which rose 11½p to 51p against 45p at which it was demerged from Avesco, the broadcast equipment and services company, earlier this year. At one point the shares fell to 22½p.

VideoLogic has already pioneered a number of advances in video technology for personal computing which have attracted contracts from companies such as International Business Machines and Compaq.

It has now developed a technique for creating three dimensional images which are substantially more realistic than any so far developed, at about a tenth of the price. Shadows, for instance, can be accurately depicted.

The radical cost reduction promises to bring games, at present limited to arcade machines, into the home.

VideoLogic also published interim results yesterday, showing losses of £3.7m (£2.5m) on revenues 23 per cent ahead at £5.5m. Losses per share were 3.4p (2.9p).

The outcome confirmed the company's October warning of continued heavy spending on research and development and falling personal computer prices.

Mr Derek McLaren, chairman, said the company had considered whether to go for short-term profits or to continue investing in the research needed for the multimedia breakthrough. If the company had opted for short-term profits, he maintained that there would have been no possibility of the NEC deal.

Existing products include semiconductor chips and printed circuit boards which make it possible for PCs to handle video images and high fidelity sound. It has designed multimedia chips for IBM and Compaq and has a manufacturing agreement with Intel.

Under the latest deal, it will supply NEC's IT division exclusively with multimedia products. It is developing the prototype of the games system which should be ready for market by the end of 1995.

Crockfords expands with £18m casino buy

By David Blackwell

Crockfords, the casino company that was reversed into TV-am last year, yesterday bought the International Sporting Club from Brent Walker for £18m cash.

The International Sporting Club in Mayfair is pitched at the middle of the market, and will be Crockfords' second premises. There are just 21 casinos in London, and acquisition is the only practical way an operator can expand in the business.

Crockfords opened London's first legal casino in Curzon Street in 1961. Last August the *company reversed into TV-am*, which had lost its licence and was planning a voluntary liquidation.

Mr Gary Nesbitt, chairman, bought Crockfords from Brent Walker in 1990, and has turned it from a casino where players were betting £2 at a time to the sort of establishment where players can lose £1m in a single night.

He said earlier this year that his strategy would be to continue to develop the existing club and to look out for acquisitions in London.

Brent Walker has owned the International Sporting Club since 1987. It has been operating from its existing premises, which are undergoing refurbishment, since 1990.

In 1993 the casino made an operating profit of £1.6m on turnover of £9.8m.

Crockfords is meeting the consideration from existing resources. It is acquiring a new 25-year lease on the premises.

MFI fails to dispel retail gloom with £29m

By Neil Buckley

MFI, the furniture retailer and *manufacturer*, failed to dispel the gloom in the retail sector yesterday when it reported interim profits at the bottom end of expectations thanks to a squeeze on gross margins.

Pre-tax profits for the 28 weeks to November 12 rose from £24.5m – excluding a £19.6m exceptional gain on the sale of MFI's stake in Carpetright – to £29m. With analysts forecasting up to £39m, the shares fell 2½p to 122p.

The problem was not on the sales side – UK retail sales increased 12 per cent, while group turnover increased 13 per cent to £363m (£320m). Mr Derek Hunt, chairman, said the trend had been maintained *in the second half*.

"There is no doom and gloom here," he added, referring to reports of disappointing high street sales. "Last year at this time we were 3 per cent ahead."

MFI revealed, however, that gross margins had fallen from 55.6 per cent to 52.9 per cent.

Ms Sue Murphy, finance director, said that resulted from a fall in the proportion of MFI-manufactured goods sold from 55 to 52 per cent, and the £3m cost of installing new ranges in stores. The group was also having difficulty passing on to consumers price increases for raw materials such as paper, chipboard, chemicals, and plastics.

With operating profits up 11.7 per cent from £27.4m to £30.6m, the group operating margin fell 0.2 points to 8.4 per cent. The effects of the gross margin fall was offset by lower costs, but analysts were disappointed by a 5.8 per cent increase in payroll costs.

The interim dividend was lifted to 1.5p (1.33p), with earnings per share up from 2.78p – *before exceptionals* – to 3.3p.

Seven new UK stores have opened this year.

Trevor Humphries

Derek Hunt: 'there is no doom and gloom here'

● **COMMENT**

If MFI is still a barometer of the retail trade – it started suffering from recession a year before other retailers – the outlook for the sector remains blustery: sales growing nicely, but gross margins squeezed by rising raw materials costs. MFI hopes to pass on more costs to consumers in the second half. *However*, without recovery in the housing market, consumer durables will remain highly competitive, limiting scope for price increases. It must then rely on customers buying more products from its own factories. Consensus full-year forecasts were trimmed to £60m, putting the shares on a prospective multiple of 12.5, which looks fair given the margin uncertainty.

MAM put in offer period

The Takeover Panel yesterday placed Mercury Asset Management, the fund management company which is 75 per cent owned by SG Warburg, in an offer period because of Warburg's intention to merge with Morgan Stanley.

The decision follows market speculation over whether Warburg and Morgan Stanley will make an offer to acquire the 25 per cent minority stake in MAM to merge it with Morgan Stanley's fund management arm. It means that relevant share dealings by Warburg, Morgan Stanley and MAM, and connected parties, have to be disclosed.

The panel could eventually force Warburg and Morgan Stanley to make a tender offer for the MAM minority under the "chain principle", if it decided that a main purpose of the merger was to acquire the assets of MAM.

Hornby warning hits share price

By Peter John

Old fashioned children may be wishing for a train set for Christmas, but their dreams are not being translated into cash for Hornby.

The USM-quoted toys group yesterday issued a warning that profits for the current year would be "substantially lower" than last year's £1.72m.

The shares fell by 50p to 127p.

"It is going to be a poor Christmas. The turnover will be good because people have money, but the profits won't because people will be waiting for the sale bargains," said one source close to the company.

Hornby may be synonymous with the golden age of railways, but the company concentrates most of its precision engineering on Scalextric. The miniature racing car game is largely responsible for an expected rise in turnover above last year's £28.2m.

The cost of expansion overseas, together with a heavy advertising campaign, has hit margins. Combined with the pressure on high street sales, this has prompted analysts to forecast an annual profit of about £700,000, less than half last year's figure.

Southern Water turns in 9.8% advance to £70.8m

By Haig Simonian, Environment Correspondent

Southern Water, one of the 10 biggest water groups, confirmed the strong tone in the industry by reporting a 9.8 per cent increase in interim pre-tax profits from £64.5m to £70.8m.

Sales in the six months to September 30 climbed 10.9 per cent to £190.6m with the help of a 29 per cent increase in the company's non-water activities, while turnover on the regulated water side grew by 5.7 per cent to £169.5m.

The improvement triggered a 9.7 per cent dividend increase to 8.45p. The shares gained 31p to close at 570p.

Southern's advance came despite a 40 per cent rise in investment spending to £104m. This should decline in the second half to reach a full-year £185m. However, capital outflows will remain a heavy drain as Southern plans to spend £1.2bn over the next five years to meet new urban waste water standards.

The rise in interim profits came through a mixture of higher sales, tight cost controls and limited acquisitions.

Costs on the regulated side remained virtually stable. The main increase in expenses came in Southern's non-regulated businesses, where it has expanded into such areas as quantity surveying and environmental services.

Earnings per share rose 7.9 per cent to 39.8p.

● **COMMENT**

Southern Water's no-surprises interim results, backed by this week's strong performance in the water regulator's league table of service standards, confirms its image as one of the best-run groups. Heavy capital spending will continue to overshadow earnings, but the damage may be limited by cost-cutting and innovations such as new technology to remove pesticides from waste water much more cheaply. Southern's relatively high K-factor in Ofwat's review also supplies some headroom. Whether that will be enough to produce an earnings and dividend surge is unlikely. But Southern's strength compared with its rivals has been its consistent profits and dividends growth. A likely 9 to 10 per cent rise in the full-year dividend to about 25p – a prospective yield of about 5.5 per cent – and a similar-sized increase in profits to between £135m and £140m should cement that reputation.

Liquidation likely at Archer arms

By Ralph Atkins, Insurance Correspondent

Archer, the Lloyd's agency, expects a liquidator to be appointed to "a number of subsidiaries" affected by litigation.

Mr Bryan Kellett, chairman, said the group was regarding as discontinued four members' agencies and a managing agency hit by court victories by lossmaking Lloyd's Names – individuals whose assets have traditionally supported the insurance market.

The agencies were acquired by Archer in recent years but the group is taking advice on their future.

Archer also announced it had spent £342,000 on professional fees while reviewing its future in the light of changes at Lloyd's. A separate company set up to invest in Archer syndicates has raised about £4m – lower than the group had hoped for.

Mr Kellett said continuing businesses made an operating profit in the year. However, the group anticipates a 12.5 per cent fall in the underwriting capacity of on-going insurance syndicates under its management in 1995. The number of syndicates run by Archer will fall from 15 to 12.

Archer also announced a reduced pre-tax deficit of £240,000 (£820,000) for the 12 months to September 30. Turnover rose to £10.7m (£8.3m).

Losses per share were 0.9p (1.9p). A recommended final dividend of 0.5p makes an unchanged total of 1p.

The group still hopes to acquire the members agency business of Cox Group.

ED&F Man matches forecast with £31m

By Christopher Price

ED&F Man, the agricultural products and financial services trading group which came to the market in October, announced pre-tax profits ahead by 19 per cent from £26.3m to £31.2m in the half year to end-September.

The rise, which was in line with indications given at the time of the flotation, was attributed to strong performances by the agricultural products and brokerage divisions. However, the fund management business was adversely affected by volatility in financial markets.

The group declined to give a turnover figure. Mr Harvey McGrath, managing director, said: "Turnover is not a meaningful figure in our business because of the variation in commodity prices." He added that in commodity tonnage terms, the half-year period was up by 18 per cent. He warned, however, that this figure too could be unduly influenced by market conditions.

Earnings per share rose by 29 per cent to 8.9p (6.9p). The company is paying a second interim dividend – set at 3.2p – at this stage, effectively as an advance payment against the final dividend. In future, it intended to pay the interim in February, followed by the final in September.

The shares slipped 1p to 170p, still below the flotation price of 180p.

Volumes in the agricultural products division rose by 18 per cent in the first half, with profits almost doubled at £20.7m (£11.1m). Particularly buoyant were profits from sugar, up from £4.4m to £9.9m, and cocoa, ahead at £4.5m (£1.9m).

Profits in the brokerage business rose by 23 per cent to £5.4m (£4.4m). But profits from fund management declined by 46 per cent to £6.2m (£11.5m). Mr McGrath cautioned that unfavourable market conditions continued to undermine the division's performance.

However, he remained confident about the overall outlook for the group for the rest of the year.

Stirling ahead to £2.22m in depressed markets

Stirling Group, the clothing manufacturer, reported pre-tax profits of £2.22m for the six months to September 30, against £222,000 after losses of £926,000 from discontinued operations, writes Peter Pearse.

The shares closed down 3p at 54p. Mr Steven Bentwood, chief executive, saw the fall against a background of a depressed textile sector as well as a depressed retail sector.

Continuing activities saw operating profits advance 15 per cent to £2.02m (£1.76m) on turnover up 6 per cent at £38m (£35.8m). The profits pleased Mr Bentwood but he would have preferred the turnover to have risen 8 per cent.

The group announced in April it was to withdraw from its import business. In the half it accounted for turnover of £4.25m (£10.9m) and operating losses of £418,000 (£753,000). Last time's figures also included contributions from the brand division sold to its management in December 1993.

Stirling made provisions of £1.8m for the imports closure, of which only £1.59m was required.

The interim dividend is lifted 9 per cent to 0.6p, payable from earnings per share of 1.7p (losses 0.06p).

Scottish Radio rises to £4m

Scottish Radio Holdings, formerly known as Radio Clyde, boosted annual pre-tax profits by 39 per cent from £3.03m to £4.2m and lifted its final dividend by 50 per cent, writes David Blackwell.

The USM-traded company will be seeking a full listing in the new year. It is also proposing a 5-for-2 share split to improve the marketability of the shares, which closed up 2p at 570p yesterday.

Mr Ian Chapman, chairman, said the group was "delighted to be reporting our best ever year." During the first two months of the new financial year, total broadcast revenue was 24 per cent ahead.

Turnover for the year to September increased by 17 per cent to £15.7m (£13.4m). Earnings rose from 24.7p to 31.6p.

Radio Clyde, the flagship station, has a 44 per cent share of listeners in its area, the highest level in the UK.

The final dividend of 9p, makes 13.5p (9.5p) for the year.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Archer	fin	0.5	Feb 25	0.5	1	1
Baggeridge Brick	fin	2.375	Feb 15	2.375	3.125	3.125
Bulmer (HP)	int	4.25	Feb 20	4	-	10.8
Chemring	fin	6.56†	Feb 17	6	9.8	9
Chubb Security	int	2.32	Feb 15	2	-	6.25
Feedback	int	0.5	Feb 9	0.5	-	1.5
Grainger Trust	fin	4.55†	Feb 28	4.05	5.9	5.25
London Electric	int	9.5	Feb 2	7.4	-	22.5
Man (ED&F)	int	3.2	-	-	-	-
Manweb	int	9.8	Mar 9	7	-	24.35
MFI	int	1.5	Feb 10	1.33	-	4
Ptarmigan	int	1.7	Jan 25	-	-	-
Robert Wiseman	int	0.9	Feb 23	-	-	-
Scottish Radio §	fin	9	Feb 15	6	13.5	9.5
Southend Prop	int	0.84	Feb 27	0.8	-	2.4
Southern Water	int	8.45	Apr 6	7.7	-	23.1
Stirling	int	0.6	Jan 21	0.55	-	1.9
Tinsley (Eliza)§	int	1.96	Feb 1	1.96	-	5.61
Widney	fin	0.2	Apr 6	nil	0.2	nil

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock.

COMPANY NEWS: UK

Cost cutting behind Chubb's rise to 15%

By Tim Burt

Chubb Security yesterday reported a 15 per cent increase in first half profits as the electronic alarms and locks group reaped the benefits of its cost reduction programme.

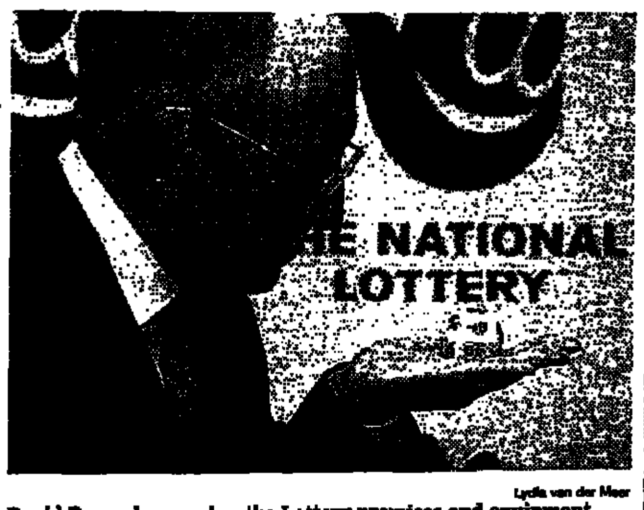
As part of the four-year programme, launched last year, the group has sold lossmaking operations, endured large redundancies and unveiled new products to improve margins and market share.

Mr David Peacock, chief executive, said those measures had begun to pay off with pretax profits rising from £34.2m to £39.2m in the six months to October 14.

Turnover showed a more modest rise to £371.8m (£355.2m), including £2.55m (£3.88m) from discontinued activities, giving a 5 per cent increase in underlying sales.

However, Mr Peacock said the group had seen orders grow by 10 per cent from £353m to £388m, including the contract to guard the premises and equipment of the National Lottery. Demand strengthened in several markets, particularly Asia and Australasia, where operating profits rose from £11.3m to £14m, confirming its second place to the UK, where profits were unchanged at £17.7m.

Physical security – locks and safes – saw profits rise to £19.4m (£17.4m) while electronic security – alarms and fire detection – rose to £19m (£18.1m).



Lydia van der Meer

David Peacock: securing the Lottery premises and equipment

Mr Peacock said the first half performance meant it was now halfway to meeting its target of increasing its share in the £7.2bn world market from 9.5 per cent to 11 per cent.

"We've done this after just 18 months of a our four-year programme."

While aggressively pursuing increased market share, the group has also sold its lossmaking alarms division in France and locks business in Australia, and set aside £2.88m to cover first half redundancies and reorganisation.

The cost of such measures, put at £4.5m a year during the cost reduction programme, was offset by strong cash generation, which during the period rose £7.2m to £42.5m.

Earnings per share rose to 8.2p (7.08p) and the interim dividend is raised to 2.32p (2p).

● **COMMENT**

Solid rather than sparkling, these figures were nonetheless creditable for a company which has yet to complete its "pain first, gain later" restructuring. Although sales were slightly below expectations, the growth in orders suggests the strategy is working. The group has saved £23m in the first phase of cost-cutting and its emphasis on new products and emerging markets promises long-term rewards. With margins growing steadily, full-year profits are likely to reach £88m, giving a p/e of 15.3. The shares, down 5p at 293p, look fairly priced, given that they touched 424p earlier this year.

Expansion for Fairey with £37m US buy

By Peter Pearse

Fairey Group, the industrial electronics and specialist engineering concern, is further expanding its electronics side with the acquisition of Randomat of the US for £37m.

Mr John Poulter, chief executive, said that since 1991 the group had spent £52.2m on six businesses in the field of on-line measuring and electronic controls.

Randomat's sole operating subsidiary is Microscan Systems, based in Renton, Washington. It makes high-performance fixed-mount bar code scanning and decoding devices.

Mr Poulter said Microscan would stand alone from the group – although there were similarities between the company and other Fairey companies which would give "advantages rather than synergies". There would be no rationalisation and Microscan is expected to be earnings-enhancing in 1995.

Mr Poulter said Fairey would encourage Microscan to develop its markets, particularly overseas. Currently between 75 and 80 per cent of its sales are in the US.

An initial payment of about £31.5m, comprising £29.8m and $2.7m (£1.64m) will be made at completion. Subsequently, loan notes for $8.5m will be payable in 1995 and 1996 to Mr Mike Mertel, Microscan's founder, president and minority vendor.

About £18.5m of the £31.5m will be raised from a placing of 5m new ordinary shares at 374p. The balance will come from existing cash resources and facilities, which will leave the group with cash in double digits at the December year-end.

Mr Poulter said that while supermarket barcode scanners needed ¼ to ½ a second to "read" information, Microscan's products could do 400 to 500 scans a second.

Memory placing

Memory Corporation, which has developed a technology which cuts the cost of producing computer memory chips, has placed 13.5 per cent of its equity at 45p per share. Market capitalisation will be £26.6m when trading begins under Rule 4.2 on December 21.

Placing with institutions intended to raise £3m of new money

Sunsail plans £20m flotation

By David Blackwell

Sunsail International, the sailing holidays operator with more than 650 yachts worldwide, is planning to come to the market early in the new year.

The group, which aims to be valued on flotation at about £20m, intends to make a placing with institutions to raise more than £3m of new money.

Pre-tax profits in the year to October 1993 were £1.3m, on turnover of £21m. Turnover to October 31 this year is expected to top £24m; net debt stood at about £3.5m.

The business has grown from a sailing school near Portsmouth, which was acquired in 1979 by managing director Mr Christopher Gordon, a sailing enthusiast since childhood.

It now operates in 18 countries from 19 bases and nine hotel sailing clubs. About 80,000 people sail with the company annually, with repeat bookings on about 50 per cent of business.

In 1980, Mr Gordon made his first foray abroad through the purchase of Island Sailing, with 40 boats in Greece, from Guinness with a three-year interest free loan of £300,000.

The company expanded by acquisition, including one in Turkey. In 1987 it more than doubled in size to an operator of 250 yachts by buying the Yacht Cruising Association. A joint venture in the US took Sunsail into the Caribbean.

In 1991 Mr Gordon sold the company for shares worth up to £8m in Airbreak, the USM-quoted tour operator.

But Airbreak collapsed the following year, in part blaming unexpected problems following the deal with Sunsail. Mr Gordon and his wife Sally, marketing director, turned to Mercury Asset Management and put together a £1.4m management buy-out to retrieve the company.

"We think we may be the only tour operator that actually survived a parent company going bust," said Mr Gordon.

Mercury remains the majority shareholder, with Mr Gordon, his wife and management holding the rest. Mercury is expected to sell most of its stake; management is planning to sell some shares, but to retain about 30 per cent.

Flotilla sailing accounts for only about 20 per cent of turnover. Sunsail's activities include independent yacht chartering and shore-based watersports holidays, as well as sailing tuition.

Development costs push PhoneLink £1.96m into red

By Paul Taylor

PhoneLink, the Birkenhead-based electronic information services company which was floated on the USM 18 months ago, yesterday reported a first-half pre-tax loss of £1.96m reflecting the planned cost of bringing the group's Tel-Me product to market.

At the same time the group announced that it had signed an agreement with WH Smith Office Supplies to develop and provide an on-line office supplies catalogue.

The system, which is due to be launched in early 1995, will enable business customers to select and then order office supplies from a screen, and will mark the first use of the Tel-Me system for direct electronic trading.

The group has also signed an agreement with Expotel, a UK hotel reservations specialist, which will allow Tel-Me subscribers to make hotel reservations "at favourable negotiated rates".

PhoneLink's loss for the six months to September 30 compares with a £301,000 deficit in the comparable period and came on turnover up by 36 per cent from £585,000 to £797,000.

Losses per share were 5.5p against 0.8p a year earlier. The shares closed 2p lower at 218p.

The group's DataCare telephone directory service for database users generated most of the first half turnover, although the Tel-Me service was launched in May after three years' development with marketing beginning in September.

Mr Trevor Burke, chief executive, predicted "explosive growth" for Tel-Me, which is based on a simple-to-use but highly sophisticated information retrieval software package, and is aimed at the business market.

Tell-Me enables personal computer users to call up business information such as company reports, telephone numbers, maps and news to their screen quickly and cheaply.

PhoneLink has already signed agreements with a number of data providers including BT, the Automobile Association and British Rail.

The group ended the period with net cash of £4.08m after capital expenditure of £1.1m on completion of the infrastructure required for the Tel-Me service.

Improved markets for ECC

By Geoff Dyer

Shares in English China Clays, the minerals and chemicals group, rose 17p to 349p yesterday after it announced a modestly improved performance in the third quarter in its main markets, especially the paper sector.

The Calgon offshoot in the US increased dollar sales revenue by 5 per cent against the previous year, with the strongest growth in paper chemicals.

Sales of ECC's European sourced minerals rose 3 per cent, a lower rate of increase than in the first half, and ECC's sales in the Americas and Pacific region were flat.

An exceptional charge estimated at £5m will be made against 1994 operating profit for further rationalisation at Calgon. This also includes the cost of integrating EZE Products, the US supplier of speciality chemicals to the paper and surface-treatment industries, which it acquired for $45.4m (£27.6m) in October.

No action to be taken over leaked BTR announcement

By Ian Hamilton Fazey, Northern Correspondent

The Stock Exchange is to take no formal action after the £35.5m disposal by BTR of three subsidiaries was announced in Australia before London markets had been informed.

Presspart Manufacturing and Decorpart of Lancashire and Presspart of North Carolina are being sold to management, which will combine the businesses into a 500-employee group exporting nearly 60 per cent of its UK output.

Combined turnover is about £30m with profits of about £5m.

The sale was supposed to be announced in London at 7.30am yesterday, but the news was out in Australia at least 12 hours earlier.

The Manchester office of 3i, which brokered the merger and negotiated the sale, is putting £13m of equity into the venture. The Royal Bank of Scotland is providing senior debt of £20m, with £6m of mezzanine debt coming from Intermediate Capital Group.

Under exchange rules, quoted companies should ensure all investors get the same information at the same time when a potentially price-sensitive transaction occurs.

In this case, although there is understood to be some annoyance, the breach is seen as unintentional, with little opportunity for trading between the announcements.

BTR acquired Presspart and Decorpart when it bought the Rockware Group in 1991. Presspart has struggled under a succession of managers, but Decorpart has prospered since Rockware headhunted Mr Ray Maddison, a steel industry specialist, in 1990 to run it.

The companies make cans for the beer, beverages, drugs and cosmetics markets and are understood to have recently worked out how to use metal to make the in-can "widgets" which gassify beers, solving recycling problems caused by first-generation plastic devices.

3i has insisted on Mr Ray Way, chairman of Denby, becoming Presspart's non-executive chairman. It is also bringing in a finance director.

Increased demand boosts Baggeridge to £5.81m

By Christopher Price

Baggeridge Brick yesterday reported pre-tax profits nearly trebled from £2.03m to £5.81m for the year to September 30.

The results were achieved against a background of a recovering housing market along with an improvement in brick demand and a subsequent rise in prices.

Baggeridge said increased demand had prompted the company to delay the introduction of a new brick line to enable it to satisfy demand for its existing products.

The recovery in the building materials business had also underpinned a rise in capital expenditure, with new production capacity being installed.

Turnover increased 28 per cent to £37.7m (£29.9m) and earnings per share trebled to 9.68p (3.33p). The final dividend is maintained at 2.375p for a same-again total of 3.125p.

The shares closed up 10p at 124p.

The company said the lack of a "feelgood factor" in the housing market was holding back sustained growth potential and adding to pressure on margins.

However, it remained confident of an "overall improvement" in the brick market in the coming year.

Ptarmigan Intl at £57,000

Ptarmigan International Capital Trust, formerly Castle Cairn Investment Trust, reported net income of £57,000 for the half year to November 30.

For the six months to end-December 1993 net income was £36,000, but the company said that the results were not comparable as in March it had changed its policy from investing only in investment trusts to investing in individual companies. And the company had also changed its year-end.

Earnings per share amounted to 1.18p (1.24p) and an interim dividend of 1.7p is declared.

Gartmore Micro raises £34.5m

Gartmore Micro Index Trust, which was launched in November to track the MicroCap index covering the smallest 1 per cent of UK equities by market capitalisation, has raised about £34.5m net of expenses through a placing and open offer.

The trust said yesterday that a total of 35.5m ordinary shares (with warrants attached) at 100p each had been subscribed for.

NEWS DIGEST

Widney recovers with £1.2m

Recovery continued in the second half at Widney and the electrical and mechanical engineer is paying its first dividend for five years.

On turnover of £31.2m (£22m) including £232,000 from acquisitions, pre-tax profits for the year to October 1 were £1.19m, compared with losses of £150,000. Earnings were 0.73p (losses 0.49p) and there is a proposed final dividend of 0.2p.

Southend Property

Interim pre-tax profits at Southend Property Holdings edged ahead from £1.78m to £1.83m, while rental income was £1m higher at £8.76m.

Earnings per share for the period to September 30 came to 1.11p (1.23p), but the interim dividend is raised to 0.84p (0.8p).

Close Brothers

Close Brothers Group, the merchant banking and financial services concern, has acquired a further 15.2 per cent of Winterflood Securities, its marketmaking subsidiary, taking its stake to 98.7 per cent.

The consideration of £8.74m cash was satisfied by the issue of 3.97m new ordinary shares, which are being placed by Warburg Securities at 220p each.

Dunedin W'wide

Net asset value at Dunedin Worldwide Investment Trust showed a modest decline from 843.5p to 835.6p per share during the year to October 31.

The trust's benchmark – the Morgan Stanley Capital International World Index in sterling – dropped 3.4 per cent during the same period.

Earnings per share fell to 4.42p (9.68p) but the final dividend is again 7.1p for a maintained total of 9.5p.

● *Dunedin Smaller Companies* Investment Trust saw its net asset value rise 3.9 per cent to 315.1p per share over the same period. Earnings per share emerged at 8.96p (8.72p) and a proposed final of 6p maintains the total dividend at 9p.

Mice placing

Mice Group, which designs and manufactures exhibition stands, came to the market via a £2.5m placing of 81.7m shares at 3p to finance expansion and debt reduction.

The placing was fully underwritten by Ellis & Partners who reported "an extremely good take-up" by mostly private clients.

Mice is an acronym for Museums, Interiors, Conferences and Exhibitions and has three subsidiaries – Mice(UK), Silver Knight Exhibitions, and Reflections.

Prospective earnings for 1994 are 0.31p. The forecast net dividend for next year is 0.096p.

Tribune Newspapers

Tribune Newspapers, the Dublin-based printing and publishing group, swung back into losses at the operating level in the year to June 30.

Despite a marginal increase in turnover to I£6.54m (£6.43m) there was an operating loss of I£1.17m against a profit of I£56,000 last time. At the pre-tax level, losses deepened to I£1.56m (I£471,000).

A new editor was appointed in April, and Mr Gordon Colleary, the chairman, said it was now the board's intention to raise new equity and to carry out a financial reconstruction early in 1995, with the aim of bringing the debt/equity ratio back to a more acceptable level.

Compco at £366,585

Compco Holdings, the property company, achieved pre-tax profits of £366,585 in the half year to September 25, compared with losses of £198,149 last time after an exceptional £550,003 charge relating to one of its joint venture properties.

Net rental income was little changed at £919,714 (£919,977). Operating expenses, however, increased to £314,535 (£268,967) mainly because of fees incurred in reorganising group borrowings and joint ventures, the company said.

In December the property at Millharbour, London Docklands, was sold for £1.43m, some £175,000 less than book value, which would be reflected in the second half.

Earnings per share came through at 11.32p (9.58p losses).

Bogod setback

Bogod Group, which sells sewing machines and accessories, reported the anticipated decline in interim profits but said that trading had improved in the third quarter.

On turnover of £3.11m (£3.04m) pre-tax profits for the half year to September 30 amounted to £59,000 (£74,000).

Directors said the company was unlikely to match the outcome of last year's second half.

Earnings fell to 0.7p (1.26p); *interim dividends were held at* 0.1p per ordinary and 0.2p per A restricted voting share.

Queens Moat replies

Queens Moat Houses yesterday denied it had been granted soft banking terms to enable it to continue trading.

The reply from Mr Andrew Coppel, chief executive, was in response to comments by Sir Paul Nicholson, chairman of Vaux, who on Tuesday said: "Certain companies, which ran into financial difficulties, have been kept afloat with subsidies from their bankers enabling them to gain a competitive advantage over properly financed companies."

Mr Coppel said he "totally disagreed" with the comments but refused to make any further statement for fear of "adding credibility to [the accusations]". Queens Moat is expected to announce terms of its financial restructuring before the December 21 AGM.

TBI £24m buy

TBI, the property group, is acquiring a £24.1m *portfolio of* 11 investment properties. The net price, after assumption of £12.9m of bank debt, is £11.2m.

The principal vendor is Mr Peter Thomas, brother of Mr Stanley Thomas, TBI's deputy chairman who takes over as chairman on January 1.

The consideration is being met by the issue of 28m new shares at 40p.

Kaye funding

Further funding of £14.5m has been provided for Kaye Aluminium, the extrusions company that was bought by management from Pechiney of France for £3.5m in 1986.

Less than a quarter of the cash has been used to acquire a competitor, Finalex, from Heywood Williams.

Visionware bought

Santa Cruz Operation, a California-based specialist software group, has bought Visionware, a Leeds-based software company, for $14.75m (£8.9m), *mostly in cash.*

Eliza Tinsley ahead

Eliza Tinsley Group, the USM-traded hardware manufacturer, yesterday reported a 24 per cent increase in interim profits despite a marginal fall in sales.

Mr Jeremy Sharp, chairman, said the improved performance reflected "stringent cost control" and the divestment of the lossmaking ET Hi-Tec computer business.

The pre-tax line for the six months to September 30 amounted to £407,000 (£329,000). Turnover eased to £7.7m (£7.86m).

Earnings per share improved to 3.63p (2.84p); the interim dividend is maintained at 1.96p.

Grainger Trust

Grainger Trust, the property company, hoisted pre-tax profits from a restated £1.74m to £5.65m for the year to September 30. The result included an exceptional credit of £1.9m.

Earnings were 18.9p (5.9p). A final dividend of 4.55p makes a total of 5.9p (5.25p).

Bolton Group

Mr Ivor Goletka is not receiving any compensation for his loss of office at Bolton Group, the property investment group.

He lost the chairmanship to Mr Mark Keegan in March 1993 and left the board in March this year. He

still holds a 4.8 per cent stake.

Danka £4m deal

Danka Business Systems, the office equipment supplier which is quoted in the UK but operates mainly in the US, has acquired Capital Business Machines for £4.2m.

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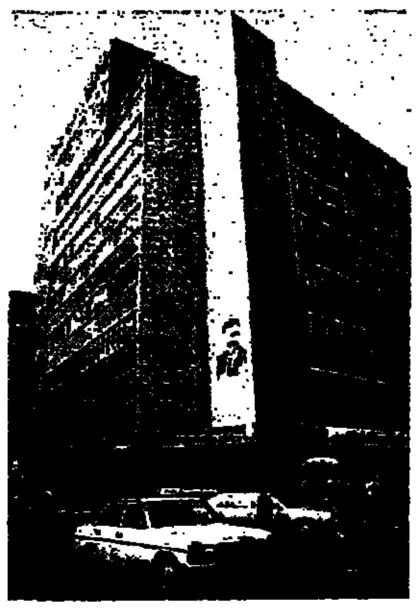
FINANCIAL TIMES SURVEY

ARAB BANKING

Beirut: city of surprises after 15 devastating years: see page II

Saudi Arabia's banks face a further squeeze on profits: page III

Thursday December 15 1994



The Gulf remains the Arab world's banking powerhouse, led by Saudi Arabia, while Morocco (left) and Tunisia are seeing a steady internationalisation of their banking systems. Pictured right is the British Bank of the Middle East in Beirut, Lebanon, where the bursting confidence of Lebanese bankers is a throwback to the days before the war when Lebanon was an important international banking and financial centre. *Pictures by Christine Osborne and Frank Spooner*

Regional unity remains elusive

Political suspicions have often been the chief impediment to economic and financial integration in the Arab world, observes **Mark Nicholson**

Arab banking is not what it was five years ago. By and large, the region's banks – and notably those in the Gulf – are more efficiently managed, more soundly capitalised, better regulated, and generally more profitable. They offer a wider range of services to increasingly sophisticated clients and can draw on a fuller quiver of varied financial instruments, many of them new to the Middle East. Capital markets in the region are starting to emerge and showing tentative signs of coalescing.

Equally, however, Arab banking has not become the distinctive international force many of the region's bankers believed it might – even as little as five years ago. Regional integration of the industry, for instance, has failed to live up to some of the more visionary dreams of the late 1980s, particularly in the Gulf states – "nothing materialised," says a Riyadh banker. "There's no regional solidarity among the banks, there are no institutions."

More than a decade of discussion of cross-border co-operation among the six Gulf Co-operation Council states (Saudi Arabia, Kuwait, Oman, Bahrain, the United Arab Emirates and Qatar) remains mostly talk – "nobody's taking a pan-Arab view," says one Gulf banker. "Saudi banks have plenty to do in Saudi, for instance: they're not in the least interested in the outside world. They're not even interested in Qatar next door."

Internal rationalisation of the individual and intensively banked Gulf markets, notably in Kuwait and the UAE, has also been slow to materialise, with family-owned institutions stubbornly reluctant to heed central bank urgings to merge.

Internationally-aspiring Arab banks, moreover, which once viewed themselves as the prospective pillars of a new Arab banking order, have largely failed to fulfil such ambitions. Banks such as Arab Banking Corporation, Gulf International Bank and National Bank of Kuwait have survived the rigours of the Gulf war and retained significant cross-border operations. But none of the banks born during the petrodollar recycling boom of the early 1980s has fully achieved its international ambitions. Most have retreated from optimistic ventures in North America, Europe and the Far East for want of profitable business.

"All the Gulf banks had problems," comments Mr John Cunliffe, chief analyst with Capital Intelligence, the Cyprus-based bank analysis and rating agency. "They all had large deposit bases but, until recently, had no great opportunities in their local markets, so they had to go overseas. But by and large they were too small to get the best business."

One result, concluded one senior banker at the recent North African and Middle Eastern economic summit in Casablanca is that "it's no longer appropriate to speak of 'Arab banking' as such – what we have is banking, done in Arab countries."

Looked at market-by-market, it is perhaps most fruitful to divide Arab banking into three centres of gravity: the Gulf, North Africa – specifically Tunisia and Morocco – and those countries like Jordan, Egypt, Lebanon and Syria whose chief economic determinant in the near term will be the prospective fruits of peace with Israel.

The Gulf remains the Arab world's banking powerhouse, led by Saudi Arabia. The 12 Saudi commercial banks account for 30 per cent of the gross tier one capital of the Arab top 100, according to recent figures in *The Banker* magazine, and the other five GCC states 40 per cent. But to give some idea of the scale of Arab banking, a participant at a recent GCC banking conference pointed out that there are 12 Japanese banks with greater assets than all 160 Gulf banks combined.

Despite the overcrowding in some Gulf markets, most banks have begun to offer an increasing range of retail services in countries where such things as bank cards, telephone banking and consumer loans are relatively recent developments. Given the large wealth and youth of most Gulf states' populations, such services are offering banks some room for growth.

Corporate banking is also benefitting from the relative success in countries such as Saudi Arabia, the UAE and Bahrain of long-standing government support for non-oil based light industrial development.

Capital markets in Saudi, Bahrain and Oman are growing. And the persistent needs of Gulf governments are adding to the still embryonic financial markets. The recent Saudi offering of $280m of floating rate notes, with a second offering expected soon, is one recent example.

In Morocco and Tunisia, meanwhile, the success of International Monetary Fund-guided structural adjustments is leading to the steady modernisation and internationalisation of the banking system. A number of western banks has stakes in their Moroccan counterparts while two of the kingdom's largest banks, Banque Populaire and Banque Marocaine du Commerce Exterieur have subsidiaries in Paris, Madrid and Belgium.

Investment funds jointly owned by Moroccan banks and companies such as ONA, the kingdon's largest priovate company, and foreign interests are increasingly active in purchasing shares in newly privatised companies. Foreign investment in Morocco this year will be close to $1bn, nearly twice last year's figure.

Thoughts of pan-Arabism have largely died for bankers in both countries. Tunisia's experiment with a number of largely Gulf and Saudi government backed banks proved a failure. These left a trail of poor investments and bad debts which will take years to write off. They did nothing to generate a competitive national banking industry.

Instead, the minds of private investors in Algiers, Tunis and Casablanca are turned increasingly towards Europe, with a number of North African-European banking alliances being formed. GP Bank, which is the merchant banking subsidiary of Société Marseillaise de Credit and a group of north African investors who this autumn acquired 40 per cent of the capital, has spawned two banks and one brokerage house in north africa.

Union Bank was recently set up in Algiers – the first of its kind in Algieria. International Merchant Bank is the first north African merchant bank and was set up in Tunis last October, with a capital of $3m-$5m. Its shareholders include north African individuals, Creditanstalt Finanziera and the IFC. In Casablanca, Maroc Service Intermediation (MSI) in which GP Bank and nine other Moroccan investors each have a 10 per cent stake is one of the newest brokerage houses.

Similar trends are true of Egypt and Jordan, where economic reforms have in the past few years led to reviews of banking regulations and practices. In both countries, cautious privatisation and liberalisation policies are stimulating fast capital market growth and rising foreign interest. And though banks in Egypt, in particular, lag their Gulf counterparts in range, efficiency and sophistication – only one Egyptian bank offers an automatic telling (ATMs) – they are fast learning the virtues of capital market services. Local banks have launched five new investment funds, the country's first, this year alone.

But perhaps the most significant development in this part of the Arab world will be the outcome of the peace process between Israel and its neighbours.

As the recent Casablanca economic summit signalled, there is a clear determination among some regional states, most energetically pursued by Israel, Jordan and Morocco, to create from peace the kind of economic integration the region has so manifestly lacked. They will be building from a low base. Recent studies suggest that intra-Arab trade, to give an illustration, has actually declined over the past five years to around 7 per cent of total trade flows from 10 per cent – one compelling reason why the region's banking system has remained "fractured and localised," as one Riyadh banker puts it.

For many at Casablanca, a first step was seen as the creation of a new regional development bank. Its rationale was put by Mr Basel Jardaneh, managing director of the Jordan Investment and Finance Bank: "Since the institutions of the region are not fulfilling their intermediation role to attract international capital, and the fact that the banking system is divided into small markets which has created rigidities and inhibited their ability to intermediate effectively and at reasonable cost, the establishment of a new regional bank should stimulate the integration of the regional financial market," he told one Casablanca seminar.

There were, however, as many doubters as advocates in Casablanca. Many bankers wondered if the region needed a new institution, where there already exist several Arab development banks. There was also as little agreement as to exactly what the bank's precise role should be as there was a lack of zeal among some western and Arab countries – notably Saudi Arabia – to fund the institution.

The prospect of a peace-led economic integration has also raised the question of where, and indeed whether, there might emerge a new banking and financial hub for the region.

This question is central to the ambitions, specifically, of Lebanon. Mr Rafik Hariri, Lebanon's prime minister, has put at the core of his multi-billion-dollar plans to rebuild the country after its 17-year civil war, the notion that Beirut will recover its lost 1970s role as the region's chief financial intermediary.

There is little doubt that Mr Hariri has made significant strides in recapturing regional and international financial confidence in Lebanon.

The recently heavily subscribed dollar bond issue and successful flotation of Solidere, the company formed to rebuild battered Beirut, are two clear examples. Hundreds of millions of dollars of private Gulf funds have flowed back into the country. Institutions such as ING Bank, Robert Fleming and Paribas have all established or expanded their presence in Beirut.

But there are as many bankers and businessmen who wonder whether the concept of a banking centre makes any sense in these days of 24-hour global banking. The waning importance of Bahrain, which during the mid-1980s turned itself into the capital of the petrodollar recycling boom and replaced Beirut as the Arab banking hub with the world, is often cited as a counter-example to those who believe regional banking needs centres at all.

"Bahrain has become much, much more

Continued on next page

James Whittington on Lebanon's prospects as a financial centre

Beirut, city of surprises

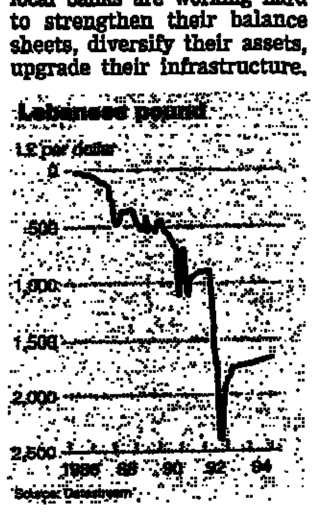
There used to be a joke in Lebanon that no wealthy family was complete without its own bank. Not only was it the ultimate status symbol but it was also useful in raising cash to help fund other family business interests. For the seriously rich, this lure of personal banking was no joking matter and, during the 1970s, the number of banks in Lebanon proliferated.

Despite 15 devastating years of civil war in which the political and economic structures of the country came close to virtual collapse, the majority of the banks have survived. There are currently 52 Lebanese banks, 14 subsidiaries, and 12 foreign banks operating through a network of over 590 branches – that is roughly one branch per 5,300 residents – making Lebanon one of the most over-banked countries in the Arab world.

The bursting confidence and resilience of Lebanese bankers is a throwback to the days before the war when Lebanon was an important international banking and financial centre. The system of free exchange and strict secrecy attracted money from a variety of sources; and a number of loans to India, Renault and even the World Bank were arranged in Beirut before 1975.

Now that hostilities are over and a massive reconstruction programme is under way, the government of prime minister Mr Rafik Hariri is lobbying hard to persuade the world that the country can regain its position as a regional centre for banking and finance.

To meet such aspirations the local banks are working hard to strengthen their balance sheets, diversify their assets, upgrade their infrastructure,



and modernise their systems and products to catch up with rest of the banking world.

"*There will be major changes* [in the banking sector] over the next few years. The whole business is light years behind and it needs a lot of investment in infrastructure, services and human resources," argues Mr Derek Kelly, a chief executive officer with the British Bank of the Middle East who moved to Beirut this summer to shake up the bank's operations. At the top of the list of changes deemed necessary by the central bank, Banque du Liban, is a shake out of some of the smaller banks – more than 30 banks are capitalised at less than a million dollars. By February of next year, all banks must comply with the Basle Agreement and fulfil a capital adequacy ratio of 8 per cent. This may set in train a series of mergers, though only a small number of banks are expected to disappear.

For the larger banks, the pressing need is to iron out the distortions left over from the war. Balance sheets have grown tremendously over the past few years, albeit from a low base. Total assets increased by 326 per cent from 4.9 trillion (i.e. million million) Lebanese pounds in 1990 to LP20.9 trillion by June 1994, with private sector deposits up from LP3.5 trillion to LP16 trillion over the same period as rich Lebanese expatriates returned flight capital.

But lending to the private sector remains low and the principal currency used by the banks, and indeed the economy as a whole, is still the US dollar. Even though the pound has been stable at around 1,700 to the dollar since February 1993 and the central bank has built up a hefty $3.8bn in foreign reserves, the commercial banks do little more than buy high-yielding Treasury Bills with the Lebanese pound. More than 60 per cent of deposits and 88 per cent of lending are in dollars. The average credit to deposits ratio for the sector is only 31 per cent and all loans are short term for trade and commerce.

In an attempt to encourage the banks to extend more credit in local currency, the central bank has relaxed its rules on compulsory Treasury Bill subscription from 60 to 40 per cent of Lebanese pound deposits. More importantly, interest rates this year have come down from 17 per cent to 14 per cent on 12 month maturities. Bankers believe that as the rate comes down further, margin pressures will force them to find more borrowers in the private sector.

Meanwhile, to cope with the demand for medium to long term financing, which is essential if the country's reconstruction programme is going to be a success, the Beirut Stock Exchange is being revived.

"We are conscious that the Lebanese economy cannot sustain real growth if we do not have medium to long term credit. That's why the central bank is backing all efforts to develop capital markets," says Mr Riad Salameh, the central bank governor.

Beirut's stock exchange was one of the most active in the region before it was closed in 1983 at the height of hostilities.

The core of the new capital market is Solidere, the $1.8bn property-development company which is rebuilding the centre of Beirut. The success of the $650m Solidere issue earlier this year, which was 42 per cent over-subscribed, formed the basis of a secondary market launched in late June.

Thirty-two banks and financial institutions have bought seats on the market's fully computerised trading floor and foreign institutions such as Paribas, Robert Flemming, Merrill Lynch and the Dutch bank ING have recently set up or revived offices in Beirut in anticipation of a fully-fledged stock market in the new year.

"As a city famous for surprises, Beirut may once again have its day," says one banker, hopefully.

Questions on regional unity

Continued from page one:
regional than it was a few years ago," says Mr Cunliffe.

"Things have changed considerably since Beirut's heydays," says another banking analyst. "Nowadays, Saudis and other Arabs have discovered they can do all the banking they want in Paris, New York, London. These places offer more than Beirut did or Bahrain does."

If any centre is to emerge, it may prove to be Israel, which in its drive to integrate itself into the region politically, is carrying with it presently the strongest force for regional economic integration. But, in a region where political suspicion has often been a chief impediment to economic and financial integration, Israel's energy may create as much competitive jealousy as unity.

Mr Hariri, for example, believes strongly that Lebanon's ambitions pit the country directly in competition with the Jewish state.

For the time being, however, there is no other centripetal force acting on the Arab financial world. The Gulf states may make greater headway in creating a cross-border banking and capital market. Oman and Bahrain, for instance, are exploring cross-border share listings.

But the greater trend is likely to be increasing openess to the international financial currents flowing into liberalising economies such as Jordan, Egypt, Morocco, Tunisia and Lebanon.

Whether such currents will leave remaining anything indissolubly 'Arab' about the region's banking system, looks at this point unlikely.

Roula Khalaf highlights Arab banks outside the Arab world

Competition in trade finance hots up

"We have stopped being a bank of big loans and big transactions, today it's back to basics" says Mr Bernard Jacquet, chairman of the management board of Union des Banques Arabes et Francaises (UBAF), Paris.

His words aptly summarise the fate of Arab banks set up in the West in the heyday of Arab Banking with the ambitious aim of recycling the mountains of capital exported from the Gulf. After falling victim to the LDC debt crisis, most of the banks either went bankrupt or were taken over by Western counterparts.

The few lucky survivors – including remnants of the UBAF Group, Saudi International Bank and United Bank of Kuwait – have largely scaled back their ambitions and are now focused on carving out comfortable niches from their western bases.

The former UBAF group, once a loose federation of banks in the West with common Arab public sector bank shareholdings, has now divided into separate banks in each of Paris, London and Rome. The Paris and London banks have secured an important stake in the trade finance between Europe and the Arab World.

UBAF Paris, the larger of the two with $5.2bn in assets, has had a harder time shedding its LDC debt problems, given a relatively significant exposure to Middle East countries, including Iraq. Unable to generate enough earnings to cover provisions in recent years (the bank lost FF722m in 1993), the bank turned to shareholders again this year. Mr Jacquet says the latest capital injection of FF501m, which raised total coverage to a comfortable 66 per cent, will be the last.

The trade finance business, meanwhile, is becoming increasingly competitive, and business from Gulf countries – a big market for the bank – is down this year. This has forced UBAF to streamline operations – staff has been cut by 15 per cent in the last four years, says Mr Jacquet – "we're doing our work smoothly and calmly and trying to do what we know how to do: trade finance," he says.

Trade finance business at *UBAF Bank Ltd in London* (1993 assets: $1.1bn), 75 per cent owned by Arab shareholders and the rest by Midland Bank PLC, is focused on North Africa, and while business with Tunisia and Morocco is

Mohamed Fezzani, general manager and deputy chief executive of UBAF Bank, in London: "Trade finance remains our raison d'être," he says

flourishing, Algeria continues to be a critical risk.

With LDC problems behind it, and 78 per cent coverage of problem country risk, the bank was able to release £7.5m in provisions back into income last year, which allowed it to register total after-tax profits of £18.7m and pay dividends for the first time since 1986. The London rating agency, IBCA, raised its individual rating of the bank this year.

UBAF London opened its first overseas office in Beirut, Lebanon this year, but "our *raison d'être* remains trade finance and we have no plans for a concerted break-out into anything else," says Mr Mohamed Fezzani, general manager and deputy chief executive. The Beirut operation is headed by Meguerditch Bouldoukian, a former vice-governor of the Banque du Liban, the central bank.

London-based Saudi International Bank (with $4.5m in *assets* in 1993), 50 per cent owned by the Saudi Arabian Monetary Agency and 20 per cent by Morgan Guarantee Trust Company, has undergone a significant transformation in the last decade, gradually moving out of commercial banking and into investment banking.

SIB's shareholders have been more than supportive – they rid the bank of a dogging LDC problem by buying the LDC portfolio in two tranches in 1987 and 1989. A gradual phasing out of lending activity has now led to non-interest income accounting for nearly half of total revenues, and derived in large part from dealing profits. Buoyant markets last year thus pushed pre-tax profits up more than 80 per cent.

The bank's *niche* is among institutional Saudi clients – total funds under management now hover around $4.5bn. SIB attempts to bring to the table sophisticated deals domestic banks may be reluctant to embark on. A typical example is the $196m fund set up earlier this year with the US's Morgan Stanley offering collateralised loan obligations, with the collateral made up of high yield bonds.

United Bank of Kuwait, based in London, is one of the few Arab banks outside the Arab world not to have been lured by the appeal of LDC debt – "that's where the herd were going and we never found the risk appealing," says Mr Christopher Keen, UBK's general manager. But the bank, which chose instead to channel Arab funds into financial instruments on world markets, suffered a blow in the 1987 stock market collapse. It has since shifted gears and refocused its business on fee-income from money management.

The strategy seems to have paid off. Last year, UBK, which has $2.8bn in assets, saw profits increase by almost 40 per cent to $10.2m and its individual IBCA rating raised. Fee income now makes up about 40 per cent of revenues.

UBK, whose largest shareholder is Kuwait's Public Institution for Social Security, now manages $2.5bn in funds and tailored portfolios. It has channeled investments into a $125m high yield securities fund and launched a fund based on the index of developing country debt with the capital guaranteed.

On the lending side, the bank has sought diversification and has built a sizeable business in property and aircraft finance.

In November 1992, UBK provided $26m to the lessor of a Boeing 757 operated by British Airways, and in March this year, extended a further $24m on a second BA aircraft. Its total aircraft portfolio now stands at $120m.

The bank is highly exposed to the property sector, which constitutes a good chunk of its loan portfolio, though according to IBCA, the vast majority of the loans are on completed and fully let buildings.

But UBK still harbours ambitions to play a larger role on international markets. It is now attempting to take a giant leap forward by selling its money management skills to US pension funds.

Last year, the bank set up Portman Asset Management, a new subsidiary that will attempt to attract US pension fund investments into international global government bond markets, where the largest component of UBK's funds under management are invested.

"We think fund management is an area we can compete in with anybody," says Mr Keen. "It would be a pity if we didn't extend our horizons further from Gulf markets."

Acceptance of Islamic banking is growing, writes Roula Khalaf

An inherent contradiction

After years of struggle to define itself, Islamic banking – which follows the Koran's prohibition against receiving or paying interest – is gaining greater acceptance in both the Arab banking world and the global financial markets.

Bolstered by a growing wave of Islamic consciousness amongst depositors on one part and the realisation among western banks that they might as well take advantage of the increasingly esoteric way some people are choosing to bank, Islamic banking is attracting newcomers and is now seen as the fastest-growing segment of Arab banking. The US's Citibank has jumped on the bandwagon and is set to open a full-fledged Islamic banking subsidiary in Bahrain next year.

The growth of Islamic banking is a cause of concern as much as celebration, as intensifying competition will increasingly drive banks to take on added risk in an industry that remains fragmented and largely outside the reach of regulators.

Industry statistics are hard to come by, but estimates put total funds invested in an Islamic way in the region of $50bn. Based on a study of eleven Islamic banks in the Gulf, Egypt and Jordan, Mr Farah Fadil, an economist formerly with the Central Bank of Kuwait, says Islamic demand deposits account for nearly 17 per cent of total demand deposits, and almost 15 per cent of savings and investment deposits. He estimates these funds grew at 8 per cent to 9 per cent annually in the last 10 years.

Saudi Arabia continues to resist granting Islamic banking licences, lest it draws attention to the fact that all banks deal in interest. But Al Rajhi Banking & Investment Company, which has a banking licence on the condition that it not officially call itself Islamic, remains the largest Islamic deposit taker, with 1993 assets of $7.6bn.

Kuwait Finance House, meanwhile, is one of the largest commercial banks in Kuwait, with a 16 per cent share of the deposit market and $3.8bn in total assets. However, conventional Gulf banks like Saudi Arabia's National Commercial Bank, which have opened "Islamic windows" to cater to religious clients, are now stepping up their Islamic banking activities.

Jeddah-based Al Baraka with an estimated $2bn in assets and Geneva-based Dar Al Mal Al Islami, with $609m in assets, have tried in vain to obtain licenses to take deposits in Saudi Arabia and now act more as investment companies, catering mostly to large depositors. A newcomer to the field is the International Investor, an Islamic merchant bank set up in Kuwait in 1992 with institutional Saudi and Kuwaiti shareholdings.

The increased competition on the commercial and investment banking sides is likely to put pressure on the industry to provide better yields to depositors. According to Mr Fadil, Islamic banks, with very few exceptions, provide returns below those offered by conventional counterparts.

Funds invested in an Islamic way in the Arab world may mount to $50bn - much of it is used for commodity trades

The reason may lie in the fact that there is an inherent contradiction in Islamic banking. The Koran prohibits interest because money should not be created out of money. Rather, profits should be generated from taking risk on productive investments and depositors should share in the bank's profits as well as losses. But the banks know that when depositors, religious or otherwise, place their money in a bank, they expect to come back and find it.

Faced with this challenge, Islamic banks, to some Moslem scholars' chagrin, have chosen to mirror conventional banking's fixed rate products that provide a pre-determined rate of return in a short term. About 75 per cent of Islamic banking funds are invested in short term commodity trades and trade finance deals where, in return for a fee, a middleman – often a Western bank, like Citibank – arranges for a trader to buy goods on Islamic banks' behalf and resell them at a predetermined mark-up.

To minimize their credit risk further, Islamic banks often seek guarantees from third parties.

The Western banks have always been happy to oblige. Islamic banks, at least in the early days, paid so little to depositors that they were considered a relatively cheap source of funding. Islamic banks are often willing to receive sub-Libor rates to get their funds invested.

The concentration of Islamic money in short-term deals continues to generate much debate in Islamic banking circles as to whether the industry is following the spirit in addition to the letter of the Koran.

Many Islamic scholars insist that the aim of Islamic banking should be to develop the economies of poor Moslem countries by providing finance to small enterpreneurs ignored by conventional banks – "the challenge of Islamic banking is not to finance the same project on another legal basis," says Mr Volker Nienhaus, an Islamic banking expert at Germany's Bochum University.

The drop in interest rates in recent years, however, has eroded margins on trade finance and though Islamic banks do not deal in interest, the mark-ups they charge are for competitive reasons directly linked to the interest rate market. This, coupled with the spread of Islamic boutiques, which widened depositors' choices, has forced Islamic banks to focus on longer term deals in an effort to improve yields.

Islamic scholars are pleased with the arrangement, which brings Islamic banking closer to the spirit, if not only the letter, of the Koran. And so are Western bankers, whose experience and international reach allow them to bring long-term deals to the Islamic banks' table.

Leasing transactions are gaining popularity. For example, ANZ Grindlays last year arranged for Al Rajhi to lend $92m in bridge finance to Pakistan's $1.9 bn Hub Power project. The International Investor, meanwhile, raised $450m in Islamic money in 1993 to finance leases for seven Kuwait Airways aircraft.

United Bank of Kuwait recently set up an Islamic equipment leasing fund, marketed to Islamic and non Islamic clients, and promising a 9 per cent return.

Mr Duncan Smith, UBK's head of Islamic investment banking unit, says the shares in the fund can be traded and UBK has agreed to buy the shares back from investors wishing to sell.

But there is much work ahead for the industry. A main challenge is to expand the menu of products it offers. Some Western financial institutions, for instance, are peddling derivatives tailored to the Islamic market. But *can* Islamic banks invest in derivatives? It depends on the bank's sharia board, whose members are experts on the Koran but less so in the field of bank options, considering them "unislamic," but Dar Al Maal's sharia board, for example, has approved the use of currency options.

What about equities?

It used to be the case that all Islamic banks resisted investing in equities of listed securities on world markets because most companies have some form of leverage. Now Dar Al Mal has convinced its sharia board that equities are acceptable investments. The International Investor, meanwhile, says its sharia board approves investments in companies that are no more than 30 per cent leveraged.

"It's up to each institution to say what is Islamic," says Mr Richard Duncan, director of Islamic finance at ANZ International Merchant Banking.

The absence of a standard interpretation of the sharia, or Islamic law, will dampen further development of the industry and slow efforts to establish capital markets where standard products can be traded between various Islamic banks.

Another growing concern is that the industry remains unregulated, lacking not only a lender of last resort in case of failure – and there have been a few in the 1980s – but also restricting banks from assuming risk and managing their daily liquidity. The banks cannot keep reserves with the Central Bank or borrow on the interbank market because they would have to receive interest in return.

Mr Fadil says that Islamic banks have resorted to privately arranged short-term liquidity techniques as a substitute, but he argues that these instruments are often costly and thus negatively affect the banks' profit maximization – "this is an unregulated sector that controls a high proportion of monetary aggregates in the economy, and this is a cause for concern," says Mr Fadil. "What is needed is the beginning of a dialogue between central banks and islamic banks."

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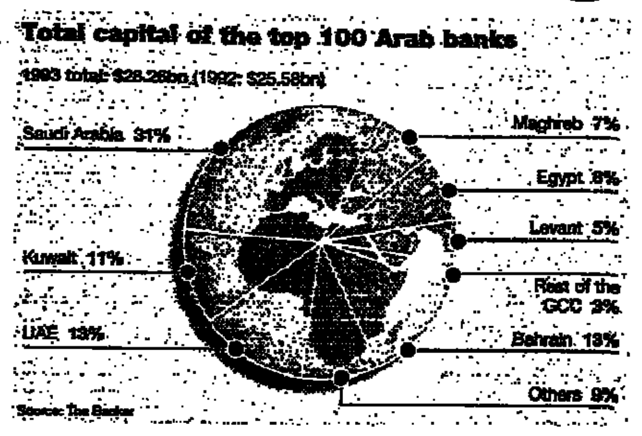
SAUDI ARABIA

Profit squeeze tightens

Few bankers believe there is likely to be a repeat of the disastrous loan defaults of the mid-1980s slump, reports Mark Nicholson



After the boom year of 1993, in which eleven of Saudi Arabia's commercial banks posted record profits and boosted balance sheets, comes the 1994 squeeze. While the sector showed overall growth in profits of 25 per cent last year, earnings were up just 3.5 per cent for the first half of this. Prospects for 1995, say Riyadh bankers, look tight.

The prime reason is the sharp fall in government spending, ever the motor of the Saudi economy, and itself the result of flat to soft oil prices, the legacy of more than a decade of fiscal deficits and, of course, the big one-off toll of the Gulf war. The government began 1994 by decreeing a sweeping 19 per cent cut in spending, a target economists believe is close to being met. Further cuts are expected in next year's budget. As a result, banks are being caught in a tightening vice.

One side of the vice is the demands made by the Kingdom's growing private sector, to which government payments for contracted work and supplies has dried up in the past 18 months. Bank lending to the private sector continues to rise – it was up 7.3 per cent in the first half of 1994 over the same period last year – but bankers say much of this is bridging finance to tide over unpaid government contractors. The other side is the continued appetite of the government, which has relied heavily on the commercial banks for its deficit financing. By mid-year, according to a study by Mr Henry Azzam, chief economist at National Commercial Bank, Saudia Arabia's biggest, total exposure to the government had reached 28.5 per cent of gross assets, a total of SR299bn. Economists say the government's domestic borrowing, made largely through the sale of treasury bills and government development bonds, has soared from zero to $84bn since 1987.

As a result, most banks are now either up to, or even exceeding, the Saudi Arabian Monetary Authority's statutory loans-to-deposits rato of 65 per cent. But while the borrowing needs of both the government and the private sector are unlikely to abate, banks are finding it increasingly difficult to expand deposits. Money supply in the kingdom, for instance, slipped 4 per cent June-on-June and has shrunk further since, banker say – this largely attributed to government delays or non-payment of bills.

Few bankers, however, are unsettled by these trends. Mr Azzam, for instance, argues that most Saudi banks remain highly liquid, still able to draw on their deposits with banks abroad and other foreign assets, including securities, which he puts at SR37.5bn and SR92.7bn respectively.

"Monetary authorities may find it advisable to reconsider the 65 per cent limit they impose on customer deposits to allow banks to respond more favourably to the credit requirement of the public and private sectors," he argued in a recent NCB economic bulletin.

The squeeze has also prompted some useful invention. Saudi British Bank, for instance, in August marketed on behalf of the government a first ever $280m issue of dollar denominated floating rate notes. Part of their virtue is that the notes need not be booked as loans on bank balance sheets. They are also a more appealing prospect to many banks than either riyal-denomination T-Bills or Development bonds, both of which have become less attractive as US interest rates have risen, and while there remain sporadic speculative assaults on the Saudi riyal – which the Saudi authorities remain adamant will not be devalued.

A second floating rate issue is likely soon, and some bankers in Riyadh believe other innovations may follow – "the traditional ways of handling the financing of the economy have reached their limits," says the managing director of one leading Riyadh bank, who says he believes the Saudi capital market may be on the cusp of a new flourishing period.

Neither do bankers appear too gloomy about the present squeeze on the private non-oil sector, the continued growth of which has been providing most banks with considerable opportunities. According to Mr Azzam's figures, lending to private businesses was 70 per cent higher in the first half of 1994 than at the end of 1990.

Pressed though many businesses may be, few bankers believe there is likely to be a repeat of the disastrous loan defaults of the mid-1980s slump – "the banks will ride this through," says one bank economist. "The banks are better positioned than in the mid-'80s and the private sector is better off generally and better run."

There have also been some signs in the past two months that the government has started paying some of its bigger overdue debts.

Most banks have, nevertheless, begun to add provisions. One of the kingdom's biggest banks says there has been a 42 per cent rise in late loan repayment in the past 10 months, but that the bank is not panicking yet. Many bankers say they are becoming increasingly cautious about new private sector lending, however.

But bankers say private businesses are considerably more tightly run today than a decade ago, banks are more willing therefore to step in and offer assistance and many private companies are themselves better placed since the post Gulf war boom – "knock on wood, I don't think we'll see the kind of massive collapse we saw in the 1980s," says one banker. "It's a much more realistic world."

Twenty leading Arab-owned banks and financial institutions

Bank or Institution	Country	Capital ($m)	Assets ($m)	Profit ($m)	Return on equity, %	Return on assets, %
1. Islamic Development Bank	Saudi Arabia	3,189.55	4,732.98	19.84	0.62	0.42
2. National Commercial Bank	Saudi Arabia	1,856.42	17,859.58	134.38	7.24	0.76
3. Riyad Bank	Saudi Arabia	1,846.80	13,974.09	246.16	13.33	1.76
4. Arab Banking Corporation	Bahrain	1,649.00	18,433.00	138.00	8.37	0.75
5. Arab Bank for Econonomic Dev.	Sudan	1,614.88	1,707.24	34.66	2.15	2.03
6. National Bank of Kuwait	Kuwait	1,091.89	10,944.96	167.76	15.36	1.53
7. Arab Bank	Jordan	1,061.07	14,283.10	107.15	10.10	0.75
8. Al Rajhi Banking & Inv Corp	Saudi Arabia	1,032.86	7,636.45	239.63	23.20	3.14
9. National Bank of Dubai Ltd	UAE	963.87	6,313.53	78.42	8.14	1.24
10. Gulf Investment Corporation	Kuwait	912.99	8,554.60	128.46	14.07	1.50
11. Saudi American Bank	Saudi Arabia	865.99	10,540.75	251.59	29.05	2.39
12. Libyan Arab Foreign Bank	Libya	694.63	3,847.21	5.54	0.80	0.14
13. Saudi British Bank	Saudi Arabia	667.60	6,079.50	107.50	16.10	1.77
14. Arab Investment Company	Saudi Arabia	659.60	851.00	12.80	1.94	1.50
15. Al Bank Al Saudi Al Fransi	Saudi Arabia	649.82	6,673.49	89.94	13.84	1.35
16. Arab National Bank	Saudi Arabia	642.04	8,483.62	132.23	20.59	1.56
17. Qatar National Bank	Qatar	575.60	4,194.65	74.03	12.86	1.76
18. Gulf International Bank	Bahrain	528.44	7,171.83	88.20	16.69	1.23
19. National Bank of Abu Dhabi	UAE	499.90	5,269.80	40.24	8.05	0.84
20. The Gulf Bank	Kuwait	486.59	4,170.17	58.01	11.92	1.39

This table lists Arab banks and institutions based within the Arab World, thus some European-based Arab banks are not included here. Total capital is defined as tier one (core) capital, plus tier two (supplementary) capital; total assets are as given in banks' financial statements and net of contra accounts. *Source: Capital Intelligence, P.O.Box 3585, 6-8 Paphos Road, Limassol, Cyprus; telephone (5) 356 700; fax (5) 359*

Robin Allen highlights trends in Kuwait and Bahrain

Prospering despite problems

The legacy of regional instability continues to haunt some financial institutions in Kuwait and Bahrain, but there are banks in both states which continue to prosper.

Kuwaiti private sector indebtedness from the collapse more than 12 years ago of the Souk Al-Manakh, the unofficial stock exchange, continues to cast a pall over the banking system and the entire economy.

Two problems remain after the passage of the second and final deadline, last October 31, for the registration and authentication of bad debts under the government's Difficult Debts Settlement Programme (DDSP).

The good news is that 8,889 debtors out of the original 10,391, just over 85 per cent, have either fully settled or have registered for settlement under the DDSP's discount options.

Together, they were responsible for 96.8 per cent or some $23.4bn, of the total debt of around KD7bn ($24.2bn). It is reckoned that most of the 1,502 debtors who failed to register by the end of October "are either bankrupt and therefore *don't care*," *in the words of one* senior banking official; or they have already left the country and do not intend to come back. Collectively, they owe KD228m ($788.9m), and will, in due course, be taken to court.

More serious is the prospect for those 5,500 people who have registered and who chose the first option for settlement – to repay their discounted debts by September 7 next year, the end of a two-year period since the DDSP law became operative.

Even after taking into account the generous discounts, which vary from 54.86 per cent to 75 per cent, depending on the size of the debt, these people still have to find a total of KD2.5bn ($8.6bn).

Many of these individuals *would have to sell their* Kuwait-based shares and property in order to raise the money. Such a massive sale of private sector assets could well tear the heart out of Kuwait's fragile economic recovery of the last two years; and the government is now said to be thinking of asking the national assembly to amend the law to give these debtors more time.

Despite these problems, the two leading banks, National Bank of Kuwait (NBK) and Gulf Bank, each increased their profits by 22 per cent last year and maintained profit growth through the first half of this year.

NBK in particular, the winner this year of Euromoney's award for 'The world's best smaller bank,' stands out for *never losing sight of the three* ingredients essential for any bank: a solid capital base; a clear strategy from its board; and quality management which is allowed the freedom to manage without interference.

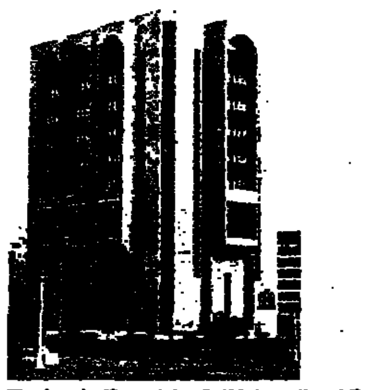
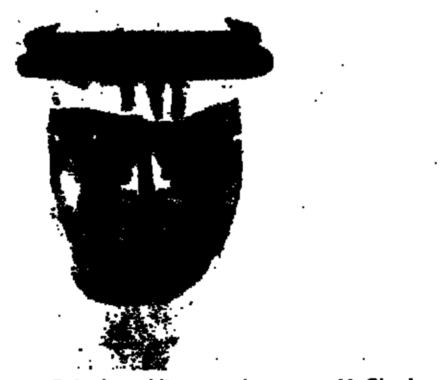
NBK's return on equity, 15.98 per cent, and its tier-one capital adequacy ratio of 22.75 per cent, are higher than many larger banks from politically more stable areas. It not only stayed clear of the Souk Al-Manakh casino; it also anticipated the regional economic downturn after 1982 and built up its assets and business overseas so that today these represent some 35 per cent of the total, and contribute more than that *to overall profits.*

Kuwait is also the home to Gulf Investment Corporation (GIC), owned equally by the six GCC governments – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE.

In its turn, GIC is the outright owner – since 1991 – of Bahrain-based Gulf International Bank (GIB), whose part-Iraqi ownership prior to that was dispensed with in the absence of Iraq after the Gulf war by the simple expedient of writing down all existing shares to zero; followed by the GCC governments re-capitalising the bank. GIC is an investment and merchant bank; GIB a wholesale commercial bank. Both were set up for the primary purpose of promoting economic growth in the GCC.

For different reasons both have been slow towards achieving this purpose. In the case of GIC, its focus has been blunted by GCC governments which up to now have had the revenue to finance their own economies' development. GIB, in common with many other Bahrain offshore banking units (OBUs), incurred losses in Saudi Arabia; as well as in Latin America and Iraq. For all these, provisions, sometimes full provisions, had to be made.

In both cases last year's profits were largely dependent on interest and gains on investment and trading securities. For the first six months of this year, GIB reported a three per cent fall in profits, largely because of a fall in "other income," trading and investment securities, from $32.5m in

The head office of the Gulf International Bank (GIB) in Manama, Bahrain and its general manager, Mr Ghazi Abdul-Jawad. GIB is owned by the Gulf Investment Corporation (GIC)

Continued on page IV

UNITED ARAB EMIRATES

Call for greater innovation

Capital increases over the last two years have brought most Gulf Arab banks above the eight per cent capital-to-risk-weighted assets guidelines set in 1988 by the Basel committee of the Bank for International Settlements. The average capital-to-assets ratio of the top 30 Gulf banks at the end of last September stood at 11.96 per cent.

However, other issues of supervision and control still cause concern to central banks. So much so, say many Gulf bankers, that Gulf monetary and other authorities are ignoring important areas that affect Gulf financial institutions' long-term interests.

Two recent conferences illustrate these contrasting attitudes. In the first, central bank auditors from the Arab League's 22 countries meeting in Abu Dhabi at the end of November under the auspices of the Arab Monetary Fund, showed how monetary authorities are still pre-occupied with banking supervision and haunted by other problems left over from past crises, including the 1982 unofficial stock market crash in Kuwait; the seven-month Gulf war of 1990-91; and the 1991 collapse of Bank of Credit & Commerce International. It was the last of these which finally spurred Gulf Arab central banks to implement the Basel committee's guidelines.

Central banks' auditors' priorities still focus on the need for quarterly reporting and inspection of banks' financial statements, stronger central banks' initiatives to persuade domestic banks to merge, more open disclosure in bank reports; all standard issues which need to be respected before the GCC banking system can mature. In the UAE, an extra element of control was added last year with the imposition of apparently stringent but in some cases still undefined lending limits, to a financial market which is the most bouyant of the six GCC countries.

According to the UAE's central bank governor Mr Sultan Al-Suweidi, UAE financial institutions increased their combined profits last year by 65 per cent compared with 1992.

A central bank report on 27 November showed credits from the country's 47 banks had increased 13.1 per cent to Dh81.6bn ($22.4bn) to the end of September this year, compared with the first nine months of 1993.

Dubai contains some of the most adventurous of the Gulf's financial entrepreneurs; and the UAE as a whole, because of its federal structure, is certainly the most difficult of the six GCC countries to regulate. So it is not surprising that it is the UAE's central bank which has been the most authoritarian. However, UAE and Gulf bankers insist that, instead of concentrating solely on tighter control over banks in their own national back-yards, what the central banks and other authorities should be concerned about is the fragmentation of Gulf financial institutions within highly protected country zones.

For example, in all of the GCC, only one local bank, Bank of Bahrain & Kuwait, has a franchise, excluding representative offices, in as many as three of the six GCC states.

Domestic banks cannot provide the wide range of financial services offered by international investment houses

By contrast, British Bank of the Middle East, among foreign banks, has a franchise in five of the six.

Restricted in the UAE to eight retail outlets and generally deprived of large and cheap government deposits, foreign banks have to work a lot harder for their profits.

Speakers at a recent financial forum in Dubai staged by Emirates Bank International, constantly returned to this theme of national banks' fragmentation and protection. They included the former Kuwait central bank governor Mr Abdul-Wahab Al-Tammar; the UAE's assistant under-secretary for revenue and budget, and chairman of Emirates Industrial Bank, Dr Khalfan Bin Kharbash; Mr Henry Azzam, chief economist from Saudi Arabia's National Commercial Bank; Citibank's UAE manager, Mr Ahmed Bin Brek; and the former chairman of Arab Banking Corporation, Mr Abdullah Saudi.

These and other prominent Gulf bankers have focused on the need for greater innovation in the financial services' sectors, with backing from "the powers that be," to match up to competition from western international banks, whose innovation skills and constant range of new products were leaving Gulf banks further and further behind.

"Who manages the huge private sector institutional and individual portfolios?" asked one speaker. The answer: international investment houses, because domestic banks were not equipped to offer the same range of products.

"Our market is liquidity-rich," said another speaker, and this liquidity "is being parked abroad."

Governments had to establish credibility by setting up transparently fair "practices, procedures and policies" – so banking, business, and judicial processes worked effectively and equally. Individual GCC country markets had to be big enough for serious investments to be made. Either governments provided these – and recent events had shown that governments no longer wanted to continue to be the primary investor – or entrepreneurs took up the slack.

For that, the authorities had to set the banking sectors free by privatising their shares in commercial banks and allowing in foreign competiton; by establishing country and regional stock-markets (in the UAE a purely national stock-market has been in the "study-stage" for almost 13 years); by allowing banks to operate freely across GCC national boundaries; and allowing them to adapt to compete with non-bank financial interests which were entering the market to do many of the things, such as credit cards and auto-leasing, that only banks used to do.

The private bond sector should also be encouraged to help cater for regional funding requirements through the establishment of an Arab credit rating agency. In this way, domestic Arab institutions would be encouraged to issue their own bonds for marketing across GCC national boundaries.

Robin Allen

Working for peace: the 1994 Nobel Peace Prize winners – for their efforts towards peace in the Middle East – were PLO leader Yasser Arafat, left; Israeli prime minister, Yitzhak Rabin, right; and foreign minister Shimon Peres, centre. They are pictured here with their medals and diplomas in Oslo's city hall *Picture by Lise Aserud/AP*

Israel's prospects as a regional financial centre

Everything depends on the peace process

A fund manager in Tel-Aviv can eat a civilised breakfast and still trade on the Far Eastern stock exchanges. During the day he can buy and sell in all the European markets. And before dinner he can tune into Wall Street.

If Middle East peace adds the necessary element of political tranquillity, Israel is ready to exploit this geographical advantage to promote itself as a regional financial centre.

Meir Het, a former chairman of the Tel-Aviv stock exchange and of Bank Leumi, Israel's second biggest bank, told The Financial Times: "We should try to encourage quality financial services that can utilise the benefits of a location where you can sleep soundly in the night and still be active in all the major exchanges."

If the tax incentives were right, Mr Het predicts that American and European Jewish professionals would set up shop in Tel-Aviv and provide the essential expertise. He suggests conditions similar to those operating in Dublin – low taxation for companies that do the business, no taxation on funds.

Mr Het served on a government committee, which reported last February on the dividends that Israeli banks and finance houses could hope to gain from peace with their Arab neighbours. It came out emphatically against turning Israel into a tax haven – "it would attract the kind of money we're not interested in attracting," Mr Het insisted. "We don't need laundered money here. What we should get into are things like fund management and custodial services."

Israel could also become a regional centre for development banking. Ten American and European investment bankers are already dipping their toes in the water.

"Almost everyone who counts today has some kind of foothold in Israel," according to Dan Halperin, a financial consultant and former Israeli Treasury official, who now represents Salomon Brothers of New York in Israel – "mostly, they are employing Israelis as their eyes and ears."

Originally, these banks were attracted by Israel's privatisation programme. They are also angling for a share in large infrastructure projects, such as the expansion and modernisation of the national rail network, plans for a rapid-transit system in Tel-Aviv, and expansion of Ben-Gurion international airport.

"By and large," Mr Halperin admits, "the investment bankers are here for the Israeli work. But some are also coming in in order to be involved in regional projects, in which Israel will be involved. Let's say, a natural gas pipeline from the Gulf to Israel, or all kinds of projects for the Jordan Valley and the Dead Sea that were mooted at the Casablanca Middle East economic conference in November.

"Nothing is very 'concrete' yet, but the bankers are looking."

Meir Het is equally cautious – "everything depends on the peace process," he says. "If it goes well, the prospects are good. Interest is being expressed, but bankers are conservative people. They will need to see that conditions are stable. It's a future hope, but not something you can build on."

Pinhas Landau, a senior financial columnist on Telegraph, an Israeli business daily paper, believes that Israeli banks could also turn into primary players in regional project and trade finance – "if only because the Israeli economy will be dominant," he argued, "it is perfectly feasible that Israeli banks will take a lead."

They would, however, have to build up their expertise – and compete with the international giants.

The Gulf Arabs seem already to have trampled down the political and psychological barriers against doing business with the Jewish state – "we've got nothing against the people with the money," Mr Landau explains, "and they've got nothing against us. More and more visibly, they're seeking business here."

What nobody takes seriously is the suggestion that Tel-Aviv might assume the role of regional banking centre that Beirut played before the Lebanese civil war broke out in 1975. The oil sheikhs no longer need it. They have made alternative arrangements, and the banking world has changed.

The days when Beirut was the only Arab capital where the phones worked are long over. With faxes and electronic mail, it is as easy and as quick to send instructions to Europe as it is across town. Market information is 'on line' in real time. If the princes and the playboys went to Beirut to escape the puritanism of Saudi Arabia, they can now fly to London or Paris in five or six hours. And even with peace, tranquillity will remain relative.

"If you're an Arab sheikh in Kuwait, waiting for the Iraqi tanks to roll again," says Pinhas Landau, "you keep your money in classic safe havens – Switzerland, or Luxembourg, or the Channel Islands, or in London or New York. What they offer is a historic record of expertise and political stability, safety, security, secrecy.

"Tel-Aviv is lacking most of the classic requirements of a banking centre. Nothing on earth is going to make the Middle East in general and Israel in particular a safe haven any time in the near future, even if we make peace with everybody."

Then there is the more specific issue of a body of expertise – "it is entirely lacking," he says. "It can begin and develop gradually. Tel-Aviv has certain things to offer, Jewish financial know-how among them. But while manufacturing centres like Hong Kong can be built overnight, financial centres cannot."

Eric Silver

Jordan's peace agreement poses a big challenge for banks

Fresh opportunities abound

This year's historic peace agreement between Jordan and Israel, signed on October 26, poses a big challenge to the kingdom's banking and financial sector. Fast-moving plans for regional co-operation and joint ventures, along with increased competition for cross-border investment and trade present huge opportunities for development.

Some Jordanian banks have already begun to respond to the new political environment by opening branches in the rapidly expanding economies of the West Bank and Gaza Strip; meanwhile, a number of Israeli bankers have begun looking for custodians to carry out their business in Amman.

On both sides of the River Jordan many hope that peace will act as a catalyst for faster economic reforms and liberalisation. A recent report by the World Bank* urges the Jordanian government to push on quickly with its economic reforms if it wants to capitalise on the benefits of peace. In the banking and finance sector it says the authorities must loosen the regulatory environment, while the kingdom's banks need to modernise their operations and introduce new products and services if they are to catch up with international banking standards.

"We've been running the banks in the form of crisis management for the past few years with one eye on political uncertainty and the other on regional instability," explains Mr Tawfik Fakhouri, chairman of the Bank of Jordan which was the first to re-open a branch in the West Bank this year. "Now we have a peace treaty, banks will be willing to expand and invest in the long term stability of Jordan and Palestine," he says.

Jordan's crisis management began in 1989 when the IMF was called in to deal with an overwhelming burden of foreign debt. This resulted in a five-year adjustment programme and strict foreign exchange controls. In the same year, the central bank was forced to take over two troubled local institutions, Petra Bank and Jordan Gulf Bank, for failing to comply with banking regulations. The psychological impact of the Petra Bank scandal, in which one of the kingdom's biggest and most innovative banks was unable to honour its liabilities, is still felt by the 15 main commercial banks operating in Jordan.

Although the regulatory environment has eased over the years, certain stipulations remain such as credit/deposit ratio requirements, restrictions on capital transfer, and a national currency which is fixed at a daily rate against a basket of currencies by the central bank.

Mr Michel Martou, the deputy central bank governor, says that more liberalisation is on the way with the central bank working towards full currency convertibility and gradually moving away from direct controls to open market operations – there has been a weekly auction of Certificates of Deposit for nearly a year now.

He argues that Jordan's banks stand a good chance of benefitting from the peace agreement, as long as they diversify their services in favour of universal banking, and further strengthen their balance sheets.

Not that the banks have been complaining much about the central bank's rules. The health of their balance sheets has improved dramatically under the well-regulated regime of the past five years.

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Jordanian banks clamour to re-open branches

A rush back to Palestine

For the Palestinians, one tangible sign of progress in the Middle East peace process is the return of Arab banking to the West Bank and Gaza Strip. Before the historic peace agreement, signed in September 1993 between the Palestine Liberation Organisation and Israel, most Palestinians kept their savings under the mattress and the only credit available came from the UN Relief & Works Agency for Palestine Refugees in the Near East.

After the 1967 war, nearly all the Arab banks operating in the occupied territories moved out. Likewise, during the heady days of the *intifada*, most Israeli banks which ventured into Palestinian territory also closed down. As a result, Arab banking activity was limited to the odd branch of the Bank of Palestine in Gaza and Jordan's Cairo Amman Bank which opened in the West Bank in 1987.

Since the peace agreement all this has changed. Jordanian banks are clamouring to re-open branches in the West Bank and the Palestinian authorities have big ideas such as printing their own money and setting up a capital market for their nascent state.

Six Jordanian banks – Jordan National Bank, Arab Bank, Jordan Gulf Bank, ANZ Grindlays, Arab Land Bank, and the British Bank of the Middle East – have so far re-opened branches and more are planned for next year. Other Palestinian institutions are also in the pipeline.

Under the present arrangements, Jordan's central bank is responsible for banking regulations in the West Bank and Gaza Strip. However, the Bank of Israel and the Palestine National Authority are also involved in licensing and monitoring of the financial institutions, and a Palestinian Monetary Authority is planned for the new year.

This confusing web of regulators, along with the free existence of several currencies, are among the prime concerns of bankers on the ground.

"It's a very difficult environment. Not only are their huge risks in offering loans in different currencies, but the regulations are a big headache," explains one banker.

Operational difficulties aside, most bankers are salivating at the prospect of an investment-led economic boom which has been forecast for the territories if and when the $2.4bn worth of aid funding which has been committed over five years materialises. Taken against the World Bank's estimates of GDP for the West Bank and Gaza Strip of between $2.5-$2.75bn, it is obvious that the huge capital inflows involved will be a great boost to the services sector.

Arguments are still raging, however, between donor countries, the World Bank, and the Palestinians over who will handle the distribution of aid. The two main Palestinian institutions involved are the Palestinian Economic Council for Reconstruction and Development (Pecdar) and the finance ministry, although individual donors have insisted on monitoring their contributions closely.

Despite the problems and uncertainties surrounding the final outcome of a Palestinian/Israeli settlement, bankers are convinced they will have a big role to play – "the secret is to get in early and develop at the pace of things on the ground. Sure, it's frustrating, but in the end it should be very lucrative," explains a Jordanian banker who plans to open the first Islamic bank in the Gaza Strip in the new year.

James Whittington

Expansion in Bahrain

Continued from page III

1992 to $14.4m this year.

Two other institutions stand out among the 69 OBUs and exempt companies in Bahrain. Both are the antithesis of GIC and GIB.

The first, Arab Banking Corporation (ABC), has developed in just 17 years to become the biggest commercial bank in the Gulf and one of the largest bank holding companies in the Arab world. By the end of last June the ABC group had built up assets to just under $19bn.

ABC's strategy and growth was synonymous with the vision and energy of its founder and chief executive, Mr Abdullah Saudi, a Libyan national, who felt compelled to resign last May as a result of political pressure exercised through the US Treasury's Office of Assets Control.

His replacement, Mr Ahmed Abdullatif, formerly deputy governor of the Saudi Arabian Monetary Agency (SAMA) and now managing director of Jeddah-based Riyad Bank, will mean a radically different style of leadership.

The second, Investcorp is a more recent creation even, than ABC, and no less successful. It was founded in 1982 in Bahrain by Iraqi-born US citizen Mr Nemir Kirdar with $50m capital paid in by a few wealthy Gulf individuals. His aim was to marry the capital export potential of the Gulf with investment opportunities in north America and Europe.

By the end of last October, Investcorp had arranged 52 corporate and real estate investment transactions worth over $6.5bn.

The few shareholders have become more than 10,000; paid-in capital is now $378m on total assets of $1.4bn.

Ambitious privatisation programme in Morocco

Quiet revolution under way

For many international banks and investment funds, the privatisation of the Société National d'Investissements (SNI) marked a watershed in Morocco's ambitious privatisation programme.

The selling of 68.64 per cent of the state's share in the capital of this holding company, whose interests range from cement to drinks and the financial sector, netted Dh2.03bn (£145m). This represents twice the amount brought in July 1993, when the state sold a 51 per cent stake in the CIOR cement company to a French subsidiary of the Swiss Holderbank group.

The sale of SNI shares was split three ways: 35 per cent of SNI shares were sold to Moroccan institutional investors, who cannot sell them for five years; and 16 per cent to Moroccan and foreign institutional investors. The remaining 15.64 per cent were floated on the Casablanca stock exchange where they were over-subscribed eight times.

Critics were many, however. The authorities decided to float 15.64 per cent of the shares on the Casablanca stock exchange during the first week in November at Dh300 a share, to encourage institutions to bid a higher price. SNI shares had been suspended at Dh425 a few days earlier.

Trading resumed before the sale to institutional investors had been completed. The minimum sale price per share for institutions set by the commission which oversees privatisation operations was Dh325. Successful bidders effectively bought the shares at Dh325.

Furthermore, bankers in London and Casablanca described the *back-room* operations of the Banque Populaire, which was the agent, as a "shambles."

However, the broad success of the sale means that the country's privatisation drive is more or less on track but the quick gains realised by some private investors smacked of speculation – not the kind of impression the authorities wish to give if this selling of "the family silver" is to find wide acceptance in Morocco.

Privatisation this year has so far brought in US$230m, a figure which could well increase if the state goes ahead with its proclaimed intention of selling its 50 per cent stake in Morocco's second largest commercial bank, Banque Marocaine du Commerce Exterieur. That sale is expected to generate no less than £76.5m. This operation is not expected to be completed before the end of the year: when completed, it will push up the proceeds of privatisation to twice the £193m level reached in 1993.

The privatisation programme launched in 1992 is a little late on initial targets which had suggested that 112 companies worth an estimated £1.3bn

King Hassan II of Morocco, left, shakes hands with Israeli prime minister Yitzhak Rabin after their recent meeting at the royal palace in Casablanca. Rabin was in Morocco to attend the first Middle East and North Africa Economic Summit. Israeli Moroccan-born Knesset vice-president Rafi Edri, centre, looks on. Picture by François Mori/AP

would be privatised by the end of next year. There is no mistaking, however, the quiet revolution which the sales of shares from state companies is bringing into a hitherto very cosseted and closed world of banking and share transactions.

Direct foreign investment in Morocco has risen steadily since 1987 to £349m last year *and is expected to top £616m* this year. Trading on the Casablanca exchange has already more than doubled so far this year and is expected to top the £640m mark by year-end.

The Overall Share Index shows a 28 per cent increase so far this year, equivalent to last year's rise.

Nonetheless, the stock exchange does boast some very illiquid shares, making the Moroccan market more attractive for wealthy investors rather than individuals.

There are three ways to invest in Morocco – through a country fund, which often includes Morocco and Tunisia, through an Africa or Middle East fund with weighting in Morocco or through the purchase of individual shares.

Privatisation has encouraged the emergence of investment funds, the first two of which, Sud-Mediterranee et Maroc Privatisation are worth £6m each, were launched early last year by Société Marseillaise de Credit and are managed by its Generale de Placement subsidiary, GP Bank.

Three of the largest funds include the £39m Morocco Fund, which is jointly owned by ONA, the kingdom's largest private company, and Salomon Brothers; the £15m Interfina fund, jointly owned by by three Moroccan banks, the International Finance Corporation and Spain's Banco Exterior, Credit Lyonnais Investissement; and BMCE and a fund jointly set up by Framlington, which is a subsidiary of Credit Commercial de France and Morgan Stanley Africa Investment Fund.

ONA has further contributed to the modernisation of Morocco's financial system by a capital increase last year which took the form of the largest-ever share issue in Morocco, worth $120m. (Wafa bank earlier that year raised its capital with the first ever public share issue in Morocco).

The company also allowed foreign investors to buy into its capital. A third of its capital is now owned by such well-known names as Morgan Stanley, Lehman Brothers, Paribas, BSN Danone and Assurances Generales de France. Mr George Soros bought a 2 per cent stake last April for $40m.

Last year, ONA was the first Moroccan borrower to raise a euroloan since the kingdom's debt was rescheduled in 1983. It raised $30m through Citibank. A further operation of this kind in the near future is not ruled out.

Faster progress in liberalising the management of Morocco's financial sector is being handicapped, however, by three factors. The first is the absence of money and foreign exchange markets which is affecting both foreign investors and Moroccan businessmen and bankers.

The second factor is the impossibility of foreign exchange hedging. The World Bank and the IMF have been pressing the Moroccan government on both counts for a least two years, but the Banque al Maghrib, the central bank, appears to be dragging its feet while many Moroccan banks appear comfortably set in their old-fashioned ways and fearful of change.

For decades, their unwritten contract with the central bank has involved financing large government deficits in exchange for comfortable margins on their other business. With an estimated $500m-$600m deficit in government financing written into next year's budget, the banks have plenty of reasons to continue in their old ways.

More recently, a further element of uncertainty has been introduced. King Hassan suggested, when he opened parliament last October, that the time might be ripe for the government of technocrats – headed by the highly respected *minister of foreign affairs*, Mr Abdellatif Filali – which has been running the country's affairs for 18 months, to give way to a more political cabinet. Such a government would be based on the alliance of the old nationalist Istiqlal party and the socialist Union Socialiste des Forces Populaires.

Doubts already being expressed about the ability, let alone the willingness of such a government, which public opinion has already nicknamed "Jurassic Parc," to pursue the path of economic reform. Neither party has made public an economic platform which addresses the problems of modern Morocco and their leaders more often than not appear caught in an economic time warp.

Many Moroccans believe that politicians alone can do the "hard sell" which is essential if the progress made in modernising the economic and financial sectors are to be consolidated. They also take comfort from King Hassan's public declarations that there is no going back on the reforms launched a decade ago.

Francis Ghiles

Morocco's privatisation programme

Companies already sold (showing sector of operation in brackets) and the price in millions of Dirhams:

- Chelco (clothing), Dh10.20m; Cior (cement), Dh943.2m; CTM (transport), Dh254.65m; CMH (petroleum dist.), Dh100.1m; Dragon Gaz (petroleum dist.), Dh 0.85m; Mobil Maroc (petroleum dist.), Dh110m; Petrom (petroleum dist.), Dh145.00m; Shell (petroleum dist.), Dh450m; Snep (petrochemicals), Dh364.3m; Soders (yeast products), Dh28.6m; Sofac-credit (consumer loans), Dh129.3m; Total Maroc (petroleum dist.), Dh300m; seven hotels, Dh204.7m; General Tire (tyre manufacturing), Dh46m; Société National d'Investissements, SNI (holding company), Dh 2,030m.
- Companies currently being sold include: Sonasid (steel), Dh918m; three sugar plants, Dh306m; six hotels Dh76m; Fertima (fertilisers), Dh204m.
- *BMCE (bank) is expected to be privatised before the end of this year.*

Source: Upline Securities

Case study: financial enterprise in Morocco

A step in the right direction

In September 1993, Upline Securities, then a little-known firm of financial intermediaries in Casablanca, found that a private Moroccan shareholder, the Al Amane Insurance Company, wished to sell the 4 per cent stake it held in the capital of ONA, the kingdom's largest private company, whose chief executive is King Hassan's son-in-law, Mr Fouad Filali.

That stake was worth $15m and entitled its owner to a seat on the ONA board. Upline Securities subsequently sold the stake to Baring Securities in London which, in turn, sold it to a group of institutional investors. That "coup" landed a small band of enterprising Moroccans on to the front page of the Morocco's economic and financial weekly, *L'Economiste*.

Upline International was founded in January 1993 by Jalal Houti and Hassan Aitali – both aged 30. Jalal Houti had returned two years previously from nine years in the US, where he graduated at the business school in Austin, Texas; meanwhile, Hassan Aitali had graduated at the business school of the Université Libre de Belgique.

Jalal Houti joined the the Banque Marocaine pour le Commerce et l'Industrie where he worked in correspondent banking. He was the only person who spoke English in that department of BMCI and soon realised the interest that banks such as JP Morgan, First Chicago and Chase Mahattan had in trading Moroccan debt in the secondary market. Hassan Aitali joined the Moroccan subsidiary of AT & T, Networking Computing Resources.

In November 1992, Jalal Houti left BMCI and became a consultant – to a US bank – on the Moroccan economy. Then, in January 1993, both friends started a weekly report which, by mid-year, had a dozen institutional investor subscribers in London and New York. Today it boasts 50 subscribers.

Both men realised that foreign investors were showing greater interest in Morocco because, by late 1992, the much-heralded privatisation programme was finally under way. Foreign banks and funds were hampered, however, by the lack of up-to-date information on the country. Hence, their decision to start a series of sector and company studies – reports which are common in London and Paris, but were the first of their kind in Morocco.

Last month, Upline Securities, which now has a staff of eight traders and financial analysts, all between the ages of 23 and 32, won their seat on the Casablanca stock exchange – a seat worth having since the Casablanca stock exchange is no longer *an old fashioned, rather clubbable* place where nothing much goes on.

Up to 1991, most of the activity on the stock exchange was in government bonds. Now, however, the faster pace of privatisation, new share issues and the increasing flow of foreign investment have transformed the place and equities now account for 85 per cent of all trading.

Upline Securities is capitalised today at Dh1m, 47.5 per cent of which was bought by the French broker Finacor in December 1993. Turnover last year amounted to $30m, a figure which is expected to rise to $50m in 1994. By world standards, such amounts are small, but the drive and enthusiasm shown by this young Morrocan team is a pointer to the big changes being wrought in a highly conservative banking and stockbroking community, many of whose senior members, who belong to the Groupement Professionel des Banques du Maroc, seem more than a little reticent about the *reforms currently being promoted* by King Hassan.

Meanwhile, Upline Securities' aims to combine stockbroking and market research in corporate finance. A seat on the Casablanca stock exchange is thus a step in the right direction.

Francis Ghiles

Jordan's debt burden hinders reform

Continued from page IV

Total private sector deposits, *excluding government and* inter-bank deposits, rose by 94 per cent from the end of 1989 to stand at JD4.6bn at September 1994, while overall assets were up by 91 per cent on 1989 at JD7.2bn.

The repatriation of savings from Palestinians returning from the Gulf in 1991, after *Iraq invaded Kuwait*, provided an exceptional boost to the banking system with foreign currency deposits more than doubling in 1991. As a result, the banks have been very liquid. In September, the average liquidity ratio stood at 56 per cent.

On the lending side, credit lines remain very conservative. Although the amount of lending has increased by 51 per cent since 1989, September's credit to deposit ratio of 53 per cent is still well below the legal maximum of 70 per cent. Most credit still goes to commerce, trade and the construction sector.

Industrial investment this year was equivalent to only 6 per cent of total deposits. Although some specialised institutions such as the Housing Bank offer long term credit for mortgages, more than half of all Jordanian banks' total credit lines are in the form of overdrafts. There *is little in the way of* corporate finance and syndicated loans.

On the Amman Financial Market – one of the most well-regulated and active stock markets in the Middle East – the banking and finance sector accounts for 44 per cent of the $5m total market capitalisation. Windfall profits by banks over the past few years have greatly increased the value of their shares. The share price index for the finance sector rose by 58 per cent between the end of 1991 and September 1994, outperforming the general index which was up 46 per cent over the same period.

A recent report by Baring Securities in London recommended the Arab Bank and the Housing Bank as some of the best buys on the bourse – although it expressed reservations over Arab Bank's lack of disclosure.

Although foreign investors have shown an interest in Amman's exchange, with a number of leading merchant banks now offering Jordanian stocks to their clients, they are concerned about restrictions imposed on foreign investors. Foreign investors need permission from the prime minister to trade on the exchange and strict limits are imposed on the amounts they can invest. Most are waiting for the kingdom's long-delayed privatisation programme in the hope of corporate finance deals and new investment opportunities.

A central obstacle to further *reforms and liberalisation* is the kingdom's heavy burden of foreign debt which currently stands at around 125 per cent of GDP ($6bn).

Although a number of creditor countries has promised to waive part of their dues in reward for Jordan's peace agreement, servicing and *repayment still requires* a net outflow of funds from the Treasury. Government officials complain that until the debt burden is reduced, regulations have to remain.

"Jordan deserves a fair chance. If we don't get more debt reduction, then we can't make the peace dividends possible," argues Mr Martou at the central bank.

* *Peace and the Jordanian economy, The World Bank, 1994*

James Whittington

A transformation in Tunisia's business scene

Women find their role

Many Tunisians regard a group of laws which, in 1956, abolished polygamy and gave their womenfolk rights not enjoyed elsewhere in the Arab world, as one of their country's proudest achievements.

The 'Personal Status Code' is arguably former President Habib Bourguiba's greatest single achievement. The rights granted to Tunisian women have been further consolidated since Mr Zine El Abidine Ben Ali became president in 1987.

The efforts to promote education, health and family planning have produced clearly visible results – population growth is *down* to 1.9 per cent a year and two-thirds of all Tunisian women are now literate. Furthermore, women are increasingly visible in a wide variety of professions – in teaching, medicine, architecture and in factories as workers, engineers and managers. Today, women have 25 per cent *of all jobs in Tunisia, 35 per* cent of jobs in industry and 40 per cent in agriculture.

Increasingly, they own and manage new businesses. A minor revolution is afoot as the number of new companies founded by women in Tunisia has risen from 7 per cent of the total in 1985 to 13 per cent this year.

Most of these companies are small, with less than 10 employees, but others are much larger and often engage in international trade in a manner which was quite unthinkable only a decade ago.

It does not come as a surprise that 73 per cent of all companies owned by women are found in the textile sector. That is true in other developing countries but the quality of some of what is produced in this sector and the sheer size of some investments points to change.

Leila Boufaid, whose husband is a senior magistrate, started a small luxury braid business 20 years ago. Today, she employs 200 workers, has a turnover of $1.8m. Around 90 per cent of its output is exported to Europe and the US.

Maille Fil which opened in 1989 is a $20m investment by Hedi Bouchamaoui for his four daughters, two of whom manage Tunisia's largest combed cotton and yarn production plant. The company imports cotton from the US and produces 3,000 tons of high quality fabric a year, 75 per cent of which is exported. While two daughters oversee the factory, the others are completing their *studies at university in Michigan*.

Meanwhile, women in Tunisia are now branching out into other spheres of business. Saida Mechri worked in a security company after gaining a degree in economics in Belgium. In 1988 she started her own company, Securitap, which employs 800 people, 700 of whom are security agents hired out to embassies and companies across the country and boasting an annual turnover of $1.7m. More recently she started a *haute couture* business which employs 10 designers and sells styles to Italy. She readily confesses that the company, called Tosca, is her "true love."

There are other diverse examples of successful women in business. Hayet Laouani, for instance, started as secretary in a shipping company, 20 years ago. Now she *owns* and runs Stumar, a company with a turnover of $3m and is active in stevadoring, conveyancing and forwarding.

Rashida Rouissi is a leading exporter of citrus products and is doing battle with the Marseilles suppliers who have a tight grip on the bulk of Tunisian exports, especially citrus fruit, 89 per cent of which was, until recently, shipped through the French port. Ms Rouissi has, however, succeeded in exporting ever-larger quantities of citrus fruit through Toulon, thus cutting freight and other costs. Her battle is not merely with Marseilles shippers but with well-established Tunisians who have lived com*fortably off* their links with the French port.

Tunisia's new breed of innovative women owner-managers work hard, often more diligently than the menfolk

Alya Heda runs Opalia, a joint venture with an Italian businessman which makes pharmaceutical products under licence from Alfa Wasserman and Amuchina of Italy. Among the hundred doctors and pharmacists who work for her, eighty are women. Pharmaceutical exports to African countries are flourishing and she hopes soon to break into the European market.

Selma Rekik is the financial controller of the Chebika Group, owned by her father and brothers. Among the group's key activities is the manufacture of electrical items for cars – Peugeot, Renault, Mercedes and Opel are clients.

She has recently acquired a 40-year lease on a former state farm, the Stifen domaine, north-east of Tunis and is busy *developing rich farmland* where earlier lack of investment over a generation all but ended production. All the fruit and vegetables produced will be exported to Europe. Like other women entrepreneurs, she started in business after marrying and raising children; her husband is one of Tunisia's leading ophthalmists.

A study conducted last year by Aziza Dargouth, who runs the CPS consulting agency, suggests that 48 per cent of women who start their own business find little difficulty in reconciling their professional and family obligations, that 43 per cent ventured into such activities for the sake of the challenge it offered, that only one husband in five is opposed to his wife's activities. Such findings do not conform to a widespread European stereotype of Arab women.

This new breed of innovative women owner-managers work hard, often more diligently than menfolk and is prepared to do battle with the civil service which, despite the efforts to liberalise the management of the economy launched in 1986, remains a worthy successor of its Turkish and French forebears. A Tunisian businesswoman jokes that edicts of the central bank are "as difficult to interpret as the Holy Koran itself... and spawn quite as many *hadiths* [the body of comments on the Koran]."

Such rules, in her view, should be clearly written and implemented with speed and honesty.

Though some women run large companies, the bulk of such businesses employ 10 people or less and are often run from home.

Francis Ghiles

COMMODITIES AND AGRICULTURE

Coffee prices tumble $200 to 6-month lows

By Deborah Hargreaves

Coffee prices tumbled for the second day in succession yesterday as roasting companies backed away from the market and traders executed a flurry of technically-driven selling orders. At the London Commodity Exchange, the March futures contract closed $213 down at $2,455 a tonne, a six-month low.

The New York market started the slide on Tuesday when futures prices lost 12 cents a pound. It failed to consolidate and recover the ground yesterday and the market lost a further five cents to $1.48 by mid-morning.

"The market has shown no evidence we have reached a bottom yet – trading is quite active and defensive," said Mr Bill O'Neill, commodities analyst at Merill Lynch in New York.

Market sentiment had weakened following a report by the US Department of Agriculture last week, which showed that world coffee stocks were higher than the market had thought. Prices were shaken yesterday by a report by German statisticians estimating a rise in world output this season, accompanied by a drop in consumption.

The F.O. Licht report estimated production at 92.3m bags in 1994-1995 compared with this year's 91.1m. It put consumption at 93.4m bags in green beans equivalent, compared with the 1993-94 level of 95.9m bags.

Mr O'Neill said the two reports had put traders on the defensive, but that a lot of the selling was also driven by technical chart patterns. He said the next support point on the New York market could be $1.25 to $1.40 a pound.

● Guatemala will cut coffee export estimates for 1994-95 in response reports from plantations on the southern coast that trees are producing lower yields than expected, an official said, reports Reuters from Guatemala City.

"Farms on the coast are reporting a drop," said Mr Max Quirin, vice-president of Anacafe, the producers association. He blamed lack of rain while the plants were flowering and said the drop in exports would be between 2 and 5 per cent.

Australia resigned to shrunken cotton crop

As the end of the planting season approaches drought losses are already being counted, writes Nikki Tait

Estate agents' hype has acquired new twist in Moree, the New South Wales country town that serves as one of the main regional centres for Australia's cotton industry. "Abundant underground water" shouts one shop-front notice, advertising a A$1.3m (£645,000) farm. "This property has received winter rains," claims another, bearing a picture of lush, green crops.

Australia's drought, which has devasted much of the rural sector on the nation's eastern seaboard, is having a curiously progressive effect. First to be hit were the grain growers, who failed to plant a significant winter crop, in some cases for the fourth successive year. Next, the livestock producers were confronted by feed shortages. Now it is the turn of cotton-producers.

This sequential impact largely reflects different planting seasons. Australian cotton is sown between October and December and harvested from February to May. This a plus for the industry in international terms as it allows growers to export when supplies from big northern hemisphere producers, like the US, are at low ebb.

In theory, then, a tiny planting window remains in the 1994-95 season. But with no sustained rain since March, and none forecast until perhaps the same time next year, many growers have abandoned hope.

"This year's over for irrigated cotton," says Alice Scott, who farms in the Gwydir region around Moree, "and there'd be quite a lot of rain needed before you'd get much dryland cotton." (In a normal year, about 90 per cent of Australian cotton production comes from irrigated land).

This week, the Australian Bureau of Agriculture and Resource Economics, the government's forecasting agency, said the area planted to cotton was likely be 154,000 hectares, 71,000 less than was harvested in 1993-94. This, it warned, could lead to the smallest cotton harvest since 1986-87. Abare suggested that production could be 1.17m bales; the Australian Cotton Foundation, representing the industry, has estimated 800,000-1m bales.

Even the higher figure would be about half the 2.1m bales produced in 1991-92, the record year. They would also represent the third year of falling output as the intensifying water shortage in key growing areas has sapped stored supplies.

Inevitably, given vagaries of rainfall and differing access to underground water, the impact of the drought varies within the nation's cotton-growing area, which runs from northern New South Wales into south-western Queensland.

Areas to the north, like Emerald, and the Macquarie region to the south, may fare relatively well. Unfortunately, despite some belated November rain around the states' borders, it will be the central and most productive zone, including the Gwydir Valley and the Macintyre, which is worst hit. Peter Saunders, regional manager of Namoi Cotton Co-operative, the country's biggest processor/marketer, estimates that the Gwydir region "will be lucky to do around 50,000 bales this year", compared with around 600,000 in 1991-92.

It is not just growers who are hurting. Decisions must soon be made about processing facilities. Namoi says it may run only seven or eight of its 11 gins. Other processors confirm that similar cutbacks are likely. At the broader social level, people are drifting away from the region, and towns like Moree are beginning to see service businesses fold and shops fall vacant.

To date, according to the *ACF*, no growers have actually gone bankrupt, although Maree McCaskill, executive director, acknowledges that "if there's another year of this, people will start to go to the wall". But already many are living off the equity invested in their farms.

A further, less visable, problem may be the extent to which the industry has sold forward. Unlike many sectors of Australian agriculture, cotton is an integrated business, with a fairly short chain between growers and end-buyers. There is, for example, no industry marketing board, and growers choose for themselves whether they sell for cash, sell forward or sell into pools.

At this stage, no one seems keen to predict the overall impact of forward selling, or the number of contracts that will not be met. "It will be a problem but it's very hard to quantify," says Peter Saunders. "What you'll see is what's happened in the past – growers approaching buyers and negotiations for a roll-over," says David Montgomery, managing director of Dunavent Enterprises, part of the large Memphis-based cotton company.

Perhaps the most realistic hope at present is that the rains come as predicted in March, and allow a non-cotton winter crop to go in. This, in turn, could provide income to sustain growers into the 1994-95 season.

But even then, some observers worry that cotton's relatively high up-front cost means that existing Australian growers will be hard-pressed to capitalise even if the drought has broken by this stage next year. As Alice Scott points out, it will be early-1996 before growers see any significant cash flow. "That's a long way off," she says.

Perhaps the biggest question is what this severe hiatus will do to Australia's reputation as a cotton-growing nation. The country is a relatively new player; it only began to develop a substantial industry 30 years ago when strains of cotton more suited to the Australian climate were discovered and irrigation infrastructure installed. Because of the dependence on irrigation, the country boasts consistent, good quality cotton, and most of its production goes for export. The Japanese, in particular, have been substituting Australian supplies for Californian.

Most in the industry seem to be holding their breath and hoping that the impetus – which has made cotton Australia's *fifth largest rural export* in just three decades – will not be lost. "It may take a year or two to get back some customers," says Mr Montgomery, "but price tends to be the key. I don't think it'll have a long-term impact".

Even in the depths of this gloom, however, there are some encouraging developments. Growers concede that the drought has prompted experimentation with different growing strategies – varying the thickness of planting and so on. Some also suggest that the water shortage will accelerate the drive to develop new strains of cotton that can adapt to cooler conditions further south, or the more tropical conditions to the north. The bigger the growing region, runs the argument, the more opportunity growers have to diversify their weather-related risk.

But others think Australia's politicians could do more to help. Mr Montgomery suggests that more attention should be paid to the potential for expanding production from the existing region, where climatic conditions are ideal in non-drought years.

"The one thing stopping this industry from doubling in size is available irrigated water," he says. "The problem is that most political parties are not interested in building dams."

MARKET REPORT

Funds return to LME

Base metals prices at the London Metal Exchange had a generally steadier day as investment fund buying was attracted by recent lower levels in some metals. There was also some trade buying and bargain hunting.

Persistent fund buying of NICKEL saw the three months delivery price soar by around $300 at one stage before it ended at $8,450, up $275.

Three months COPPER traded actively around the $2,900-a-tonne level for most of the day until buyers gained the upper hand late in the day, taking the price to a close of $2,912, up $6.

Renewed speculative buying and short-covering helped lift ALUMINIUM, which was also affected by talk of power failures in the US north-west, where many smelters are located.

TIN was subjected to further bouts of hedge selling and liquidation, but this was well absorbed in the low $5,800s and a rally ensued.

Compiled from Reuters

Harvest disappointment causes havoc in Indian market

By Kunal Bose in Calcutta

The absence of a scientific crop forecasting agency has once again caused havoc in Indian textile mills. As earlier forecasts of a bumper cotton crop of 13.8m to 14m bales (170kg each) have proved excessive there has been runaway inflation in local cotton prices.

Not only have cotton prices risen by 60 to 90 per cent over the levels ruling a year ago, say Industry officials, but farmers and ginners are holding on to their stocks in anticipation of still higher prices.

The spot price of Punjab J-34 grade is over Rs1,900 a maund (82lb), compared with Rs1,010 a year ago. Concerned about the suspected large-scale cornering of the harvest from the 1994-95 season (September to August), the Indian Cotton Mills Federation has urged the government to impose restrictions on ginners' and traders' stocks. Such restrictions are already enforced on textile mills.

"The market had seen so many distortions in the current season that all transactions in cotton were suspended in Punjab, a big trading centre, for a week," an industry official said.

Most analysts have now lowered this season's estimate to about 13.1m bales. Some believe, however, that it will not be much more than last year's 12.1m. Industry officials say slow arrivals of new season supplies make it difficult to make a confident prediction. "Only in the new year will we get a fair idea of the Indian cotton crop," said one.

What is known, however, is that crops in the three northern states of Punjab, Haryana and Rajasthan have suffered a setback because of the second severe boll worm attack in two years. And growers are worried that boll worms and other pests have become immune to pesticide. The combined crop in the three states may be only 3.8m bales, down from the original estimate of 4.4m.

Elsewhere, cyclonic storms have hit crops in the southern states of Andhra Pradesh, Tamil Nadu and Karnataka and late rains cut output in Maharashtra and Gujarat.

"Because of the high prices of the commodity last year, the farmers have raised the land under cotton by nearly 9 per cent to 7.92m hectares," said an industry official. "The crop will once again be small, but the unusually high prices will sustain the growers' interest."

The Eastern India Textile Mills Association has pointed out that many of its members are "holding cotton stocks of less than a week". In these circumstances the mills, as last year, will be importing cotton. During 1993-94, they imported around 300,000 bales duty free.

Even though the crop is going to be small, the government, in conformity with the long-term export policy, has been considering allowing the export of 500,000 bales. So far, however, export quotas have been granted for only 100,000 bales of the Bengal Deshi variety and 30,000 bales of soft cotton waste. The government may go slow on exports if prices remain at the present level.

"The issue is not only to satisfy the domestic requirement of nearly 13m bales of cotton but also to have enough carry forward stocks for the next season," said an EITMA official. "The Indian cotton season officially begins in September. But the new crop starts coming into the market only in November. Ideally, we should have an end-season surplus of 3m bales."

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1829-30	1860-1
Previous	1800-01	1829-30
High/low	1815	1870/1842
AM Official	1814-5	1845-5.5
Kerb close		1868-9
Open int.	258,352	
Total daily turnover	66,325	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1780-90	1820-30
Previous	1775-85	1810-15
High/low	1815	1825/1810
AM Official	1772-3	1812-14
Kerb close		1821-4
Open int.	2,926	
Total daily turnover	433	

■ LEAD ($ per tonne)

Close	614-5	632-3
Previous	609-10	625-6
High/low		636/625
AM Official	613-5	631-2
Kerb close		635-6
Open int.	42,870	
Total daily turnover	12,165	

■ NICKEL ($ per tonne)

Close	8305-15	8455-60
Previous	7990-8000	8130-40
High/low	8278	8500/8225
AM Official	8275-8	8415-20
Kerb close		8450-60
Open int.	67,486	
Total daily turnover	18,662	

■ TIN ($ per tonne)

Close	5805-15	5910-15
Previous	5745-65	5840-50
High/low		5950/5800
AM Official	5755-65	5855-60
Kerb close		5890-910
Open int.	22,961	
Total daily turnover	6,566	

■ ZINC, special high grade ($ per tonne)

Close	1083.5-4.5	1112-3
Previous	1069.5-70.5	1097.5-8.5
High/low		1125/1106
AM Official	1086-7	1114-5
Kerb close		1118-9
Open int.	106,801	
Total daily turnover	22,246	

■ COPPER, grade A ($ per tonne)

Close	2957-60	2905-7
Previous	2943-5	2893-5
High/low	2952/2950	2914/2880
AM Official	2951-2	2899-900
Kerb close		2912-5
Open int.	240,258	
Total daily turnover	56,539	

■ LME AM Official £/$ rate: 1.5600
LME Closing £/$ rate: 1.5617

Spot:1.5615 3 mths:1.5613 6 mths:1.5612 9 mths:1.5612

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	low	Open int	Vol
Dec	136.50	+2.10	137.00	133.90	4,469	1,936
Jan	135.85	+2.10	136.50	134.80	1,794	155
Feb	135.35	+2.10	-	-	757	12
Mar	134.25	+2.10	134.50	131.80	28,515	8,837
Apr	131.25	+1.35	-	-	683	5
May	128.75	+1.40	128.80	127.00	3,746	218
Total					49,882	11,236

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	378.90-379.30	
Opening	378.10-378.50	
Morning fix	378.35	242.144
Afternoon fix	380.50	243.848
Day's High	380.50-380.90	
Day's Low	378.10-378.50	
Previous close	378.30-378.70	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.56 6 months 5.83
2 months ....5.01 12 months 6.62
3 months 5.25

Silver Fix	p/troy oz.	US cts equiv.
Spot	305.05	476.60
3 months	308.70	482.20
6 months	313.55	489.75
1 year	325.90	509.05
Gold Coins	$ price	£ equiv.
Krugerrand	379-382	243-246
Maple Leaf	388.00-392.05	-
New Sovereign	88-91	56-59

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	378.5	+1.3	381.0	378.0	172	36
Jan	379.8	+1.2	-	-	1	-
Feb	381.5	+1.2	383.2	381.0	92,732	15,718
Apr	385.5	+1.2	387.2	385.2	13,667	267
Jun	389.7	+1.1	391.6	389.0	21,323	480
Aug	394.2	+1.0	394.8	394.1	12,111	176
Total					176,348	16,899

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jan	408.8	-0.8	411.0	408.5	12,873	2,208
Apr	412.5	-1.3	415.5	412.3	12,766	1,005
Jul	417.0	-1.3	418.5	418.0	1,870	9
Oct	421.7	-1.4	-	-	826	10
Jan	425.4	-1.2	-	-	14	-
Total					28,461	3,232

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Dec	153.00	-0.85	153.75	153.00	30	10
Mar	154.75	-0.85	155.25	154.35	5,874	423
Jun	156.00	-0.85	-	-	781	35
Sep	157.25	-0.85	158.00	158.00	125	28
Dec	158.25	-0.85	158.50	158.50	10	-
Total					6,823	486

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

Dec	475.4	+2.6	476.0	473.0	101	26
Jan	476.0	+2.5	-	-	79	2
Feb	478.5	+2.5	-	-	802	-
Mar	481.5	+2.5	484.0	478.0	75,763	18,789
May	487.5	+2.5	489.0	484.0	10,316	2,982
Jul	493.8	+2.5	495.8	491.0	7,440	110
Total					130,927	22,380

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	17.11	+0.20	17.15	16.79	89,187	27,273
Feb	17.19	+0.25	17.22	16.81	90,826	27,581
Mar	17.27	+0.25	17.27	16.92	51,395	2,982
Apr	17.30	+0.18	17.30	17.10	20,158	4,242
May	17.34	+0.18	17.35	17.27	13,831	1,574
Jun	17.45	+0.20	17.49	17.35	28,815	2,868
Total					408,883	77,866

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	16.14	+0.18	16.17	16.03	65,264	22,054
Feb	16.12	+0.23	16.15	16.02	76,398	19,810
Mar	16.05	+0.16	16.09	15.98	21,065	3,598
Apr	16.06	+0.16	16.10	16.01	10,087	1,029
May	16.08	+0.16	16.08	16.02	7,195	410
Jun	16.11	+0.13	16.12	16.05	6,817	75
Total					195,923	47,093

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	46.60	+1.12	46.80	45.45	35,403	18,793
Feb	46.65	+0.98	46.90	45.75	30,690	9,428
Mar	46.75	+0.89	46.75	45.85	20,742	4,122
Apr	46.15	+0.74	46.15	45.30	13,945	1,591
May	45.55	+0.49	45.50	45.25	7,834	1,274
Jun	45.35	-0.44	-	-	8,414	-
Total					147,695	36,804

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	145.50	+1.25	147.75	145.50	44,162	4,856
Feb	147.75	+1.50	148.75	147.75	22,826	3,471
Mar	148.00	+1.50	148.75	147.75	11,947	1,241
Apr	148.25	+1.75	148.00	148.25	4,336	1,132
May	148.75	+1.75	148.50	148.00	1,575	110
Jun	148.50	+2.00	150.00	148.00	4,006	1,327
Total					95,465	13,817

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	1.735	-0.033	1.770	1.760	24,971	23,003
Feb	1.760	-0.074	1.800	1.730	20,821	6,463
Mar	1.735	-0.008	1.810	1.710	16,215	4,550
Apr	1.685	-0.065	1.685	1.670	9,925	2,423
May	1.690	-	1.695	1.675	8,144	1,114
Jun	1.700	+0.002	1.700	1.685	7,193	914
Total					141,617	42,390

■ UNLEADED GASOLINE NYMEX (42,000 US gals.; c/US gals.)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	52.20	+1.11	52.30	51.00	28,018	14,101
Feb	51.75	+0.92	51.80	51.25	17,028	6,086
Mar	52.10	+0.80	52.10	51.75	8,751	2,003
Apr	55.15	+0.55	55.20	54.80	10,236	1,113
May	54.80	+0.75	54.80	54.30	5,160	284
Jun	54.75	+0.55	54.75	54.40	1,442	191
Total					66,467	23,946

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	107.50	+0.75	107.50	106.95	1,173	175
Mar	108.45	+0.75	108.40	108.00	1,730	28
May	110.35	+0.60	110.50	109.80	1,732	128
Jul	111.75	+0.35	-	-	277	-
Sep	97.15	+0.50	96.75	96.75	77	3
Nov	98.20	+0.65	98.40	97.70	938	110
Total					5,011	467

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Dec	367/6	-4/6	372/2	369/2	1,141	1,056
Mar	382/4	-3/4	387/4	380/0	43,372	13,538
May	365/4	+5/0	370/6	364/4	7,394	1,080
Jul	337/2	-6/4	342/6	336/4	14,133	1,519
Sep	342/6	-5/6	346/0	341/0	709	7
Dec	355/0	-7/0	359/0	353/0	252	14
Total					66,964	17,338

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Dec	216/4	-2/6	218/4	216/2	3,602	1,423
Mar	226/0	-2/6	229/6	227/4	115,308	22,508
May	234/6	-3/2	237/0	234/4	43,842	2,841
Jul	238/4	-4/0	241/2	239/2	45,408	3,672
Sep	242/0	-3/4	245/0	242/0	5,093	484
Dec	246/0	-2/4	248/0	245/4	36,255	1,579
Total					245,176	32,692

■ BARLEY LCE (£ per tonne)

Jan	104.20	+0.15	104.25	104.25	393	45
Mar	106.15	+0.25	-	-	192	-
May	108.20	+0.05	108.25	108.25	92	10
Sep	95.50	+0.25	-	-	28	-
Nov	97.65	+0.65	97.50	97.50	67	10
Jan	99.25	+0.70	-	-	-	-
Total					735	65

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Jan	561/2	-3/2	563/0	559/2	42,630	16,152
Mar	571/2	-3/4	573/0	569/2	32,787	4,546
May	579/6	-3/2	581/2	577/4	18,136	1,339
Jul	585/2	-3/6	589/2	583/2	25,844	1,718
Aug	587/4	-3/0	589/4	586/0	2,277	148
Sep	589/0	-3/0	590/0	587/0	1,726	29
Total					136,486	24,951

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Dec	28.84	+0.03	28.85	28.52	8,194	2,749
Jan	27.54	+0.08	27.58	27.15	33,693	12,320
Mar	26.68	+0.05	26.68	26.35	28,762	7,300
May	25.90	+0.10	25.90	25.57	18,632	2,074
Jul	25.41	+0.14	25.42	25.05	11,106	1,808
Aug	25.10	+0.15	25.10	24.90	3,281	16
Total					114,725	27,683

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Dec	158.3	-1.8	157.7	155.1	2,802	5,000
Jan	157.4	-1.5	158.8	157.2	25,853	11,577
Mar	160.9	-1.7	162.7	160.8	29,792	5,998
May	164.7	-1.3	166.4	164.7	14,745	690
Jul	168.7	-1.5	170.0	168.2	12,666	636
Aug	171.4	-1.5	172.7	171.4	2,179	32
Total					101,150	21,816

■ POTATOES LCE (£/tonne)

Mar	281.3	+31.3	-	-	-	-
Apr	281.3	+9.8	281.0	277.0	1,352	66
May	288.0	+11.5	-	-	2	-
Jun	250.0	-	-	-	-	-
Total					1,364	66

■ FREIGHT (BIFFEX) LCE ($10/index point)

Dec	2016	-17	2020	2020	300	10
Jan	1855	-70	1910	1850	597	133
Feb	1830	-50	1850	1830	190	83
Apr	1723	-55	1750	1720	1,533	123
Jul	1631	-59	1665	1631	236	115
Oct	1640	-45	1665	1640	107	25
Total					3,251	498

	Close	Prev
BFI	2038	2043

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	934	+5	935	916	3,894	65
Mar	931	+5	931	914	45,102	2,669
May	931	+4	930	916	17,449	1,300
Jul	960	+21	950	937	7,369	295
Sep	967	+18	972	949	13,385	486
Dec	979	+14	980	956	11,805	227
Total					110,413	5,210

■ COCOA CSCE (10 tonnes; $/tonnes)

Dec	1260	+45	1200	1169	2	-
Mar	1269	+46	1275	1208	40,311	5,664
May	1279	+41	1280	1225	12,052	888
Jul	1297	+41	1290	1240	5,898	501
Sep	1316	+41	1315	1263	2,070	162
Dec	1335	+35	1340	1290	4,781	150
Total					77,339	6,556

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Dec 13		
Daily	929.42	930.70

■ COFFEE LCE ($/tonne)

Jan	2478	-217	2659	2465	8,695	1,714
Mar	2463	-205	2630	2449	10,832	3,455
May	2449	-185	2590	2435	3,073	1,545
Jul	2445	-176	2545	2445	1,536	382
Sep	2440	-169	2505	2470	2,676	235
Nov	2438	-162	2500	2495	416	14
Total					28,259	7,445

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Dec	144.25	-8.50	145.00	140.00	71	36
Mar	147.10	-8.50	148.25	144.50	17,347	9,182
May	155.80	-8.00	155.80	155.80	6,786	576
Jul	157.50	-8.00	0	0	2,768	228
Sep	158.80	-8.00	0	0	1,976	356
Dec	158.85	-8.00	0	0	1,826	176
Total					30,880	10,538

■ COFFEE (ICO) (US cents/pound)

Dec 13	Price	Prev. day
Comp. daily	142.31	150.75
15 day average	151.99	153.54

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

Jan	13.90	-	-	-	-	-
Mar	14.85	-0.05	-	-	370	-
May	14.85	-0.02	-	-	880	-
Jul	14.55	-	-	-	300	-
Total					1,550	-

■ WHITE SUGAR LCE ($/tonne)

Mar	402.50	-3.00	408.00	402.10	12,989	815
May	385.80	-3.70	401.00	395.20	5,830	69
Aug	385.70	-3.00	390.00	385.00	4,443	97
Oct	357.20	-3.30	361.30	359.50	1,679	29
Dec	351.90	-4.30	356.30	351.50	125	13
Mar	348.90	-5.30	354.00	352.00	219	5
Total					25,038	1,092

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Mar	14.68	-0.11	14.84	14.52	97,616	14,680
May	14.56	-0.08	14.76	14.58	37,838	3,126
Jul	14.32	-0.07	14.53	14.30	23,446	2,430
Oct	13.21	-0.04	13.30	13.20	24,850	1,457
Mar	12.90	-0.10	-	-	8,366	1,223
May	12.89	-0.07	12.92	12.85	1,828	120
Total					193,133	23,822

■ COTTON NYCE (50,000lbs; cents/lbs)

Mar	83.23	+0.56	83.57	82.67	31,762	4,385
May	83.23	+0.31	83.65	83.05	11,132	1,228
Jul	82.85	+0.39	83.20	82.45	6,332	346
Oct	74.55	-0.15	74.80	74.45	1,173	113
Dec	71.90	-0.20	72.15	71.85	5,969	442
Mar	72.70	-0.20	72.85	72.85	63	5
Total						

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jan	113.75	+3.90	114.00	108.50	10,216	940
Mar	117.30	+3.35	117.90	113.05	8,335	681
May	120.45	+3.05	120.70	116.50	1,612	66
Jul	122.70	+2.80	122.80	118.60	920	39
Sep	125.70	+2.95	125.70	122.00	2,151	15
Nov	125.70	+2.95	124.00	124.00	1,349	1
Total						

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	70.575	+0.425	70.675	70.100	8,695	2,849
Feb	70.175	+0.400	70.225	69.700	38,133	7,108
Apr	70.650	+0.175	70.750	70.350	18,968	2,835
Jun	66.575	+0.200	66.450	66.100	8,792	667
Aug	63.300	+0.200	63.400	63.225	2,896	125
Oct	64.100	+0.225	64.175	63.925	1,424	66
Total					80,971	12,904

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Dec	34.125	+0.225	34.375	33.900	2,123	1,305
Feb	35.925	+0.075	37.100	36.750	14,462	4,228
Apr	37.625	+0.175	37.575	37.250	5,392	1,862
Jun	43.325	+0.425	43.350	42.900	4,706	1,265
Jul	43.000	+0.275	43.200	42.600	1,205	365
Aug	41.900	+0.350	41.375	41.000	1,117	67
Total					33,144	11,110

■ PORK BELLIES CME (40,000lbs; cents/lb)

Feb	38.150	+0.900	38.550	37.450	7,823	1,727
Mar	38.500	+0.775	38.825	37.900	1,619	308
May	39.600	+0.825	40.050	39.100	516	70
Jul	40.650	+0.050	40.850	38.850	430	25
Aug	39.525	+0.600	40.000	39.900	215	7
Feb	49.500	+0.600	49.850	-	10	1
Total					10,586	1,798

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Feb	May	Feb	May
1800	104	171	50	86
1850	78	145	73	109
1900	56	121	100	134
■ COPPER (Grade A) LME	Feb	May	Feb	May
2850	147	118	53	167
2900	117	100	72	197
2950	91	83	95	229
■ COFFEE LCE	Jan	Mar	Jan	Mar
3050	-	37	522	574
3100	-	31	572	618
3150	-	26	622	663
■ COCOA LCE	Mar	May	Mar	May
900	59	75	28	44
925	45	62	39	56
950	34	51	53	70
■ BRENT CRUDE IPE	Jan	Apr	Jan	Apr
1600	-	86	4	64
1650	-	47	-	95
1700	-	32	-	130

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jan)

		+or-
Dubai	$15.40-5.51z	+0.085
Brent Blend (dated)	$16.77-6.79	-0.06
Brent Blend (Jan)	$16.05-6.07	-0.06
W.T.I. (1pm est)	$16.94-6.96z	-0.02

■ OIL PRODUCTS NWEprompt delivery CIF (tonne)

Premium Gasoline	$162-164	
Gas Oil	$141-144	+1.5
Heavy Fuel Oil	$97-99	+3
Naphtha	$167-171	-3
Jet fuel	$162-164	+1
Diesel	$146-149	+1
Petroleum Argus. Tel. London (071) 359 8792		

■ OTHER

Gold (per troy oz)♣	$378.1	+0.60
Silver (per troy oz)♣	478.5c	-1.00
Platinum (per troy oz.)	$411.25	-1.60
Palladium (per troy oz.)	$152.25	-1.25
Copper (US prod.)	139.0c	-1.0
Lead (US prod.)	40.75c	
Tin (Kuala Lumpur)	15.00r	-0.12
Tin (New York)	272.5c	
Cattle (live weight)†	120.80p	-0.48*
Sheep (live weight)†♣	115.85p	-3.26*
Pigs (live weight)	82.99p	-3.77*
Lon. day sugar (raw)	$356.10	+6.60
Lon. day sugar (wte)	$411.00	+6.00
Tate & Lyle export	£342.00	+4.00
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£132.0	
Wheat (US Dark North)	£165.0	
Rubber (Jan)♥	101.00p	+0.50
Rubber (Feb)♥	100.50p	+0.50
Rubber (KL RSS No1 Jul)	375.0m	+2.00
Coconut Oil (Phil)§	$690.0y	-15.0
Palm Oil (Malay.)§	$720.0x	-12.5
Copra (Phil)§	$451.0q	-5.0
Soyabeans (US)	£171.0z	
Cotton Outlook'A' index	86.65c	
Wooltops (64s Super)	462p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jan/Feb. x Nov/Dec. q Dec. z Jan. ♣ Bullion market close. ♣ Sheep (Live weight prices). * Change on week. † Prices are for previous day.

Cotton

Liverpool- No spot or shipment sales were recorded for the second week in succession. Ordering was restricted and the offtake was confined to minimum quantities. Slow trading persisted in certain specialist growths.

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Dec 14	Dec 13	month ago	year ago
2169.0	2181.7	2136.9	1670.7

■ CRB Futures (Base: 1967=100)

Dec 13	Dec 12	month ago	year ago
229.23	230.10	233.74	224.18

JOTTER PAD

CROSSWORD

No.8,637 Set by DANTE

ACROSS

1 Metal detector? (6)
4 Send *a letter to cancel* a bad debt (5,3)
9 Acquire money in large amounts – like a croupier does? (4,2)
10 Musical figure (8)
12 They call on us, but not for help (8)
13 Beat time (6)
15 Steer straight (4)
16 Photograph a monster found in the garden (10)
19 Actions against the defence (10)
20 Game in which all matches are exciting (4)
23 Show EEC arrangements about French wine (6)
25 Doubtless, people do (4,4)
27 Definite cure (8)
28 Viewers – all but one – upset by change of direction (6)
29 Highly commendatory speeches (8)
30 Squirm and wither away (6)

DOWN

1 Moving home (7)
2 Fish with a pole – plain enough? (5)
3 Creates a vacancy, perhaps (6)
5 Unusual combination of artist and engineer (4)
6 Masters the conversion of hectares (8)
7 Should be zero? (6)
8 He's at liberty to be privileged citizen (7)
11 He takes one's foreign money for a start (7)
14 Fields of activity he gets a mixed press about (7)
17 Revolutionary development in naval fire-power (3,6)
18 Agent in trouble about a number performing (8)
19 Manage to define the bishop's position (7)
21 Go ahead and get caught in deeper trouble (7)
22 On which to get wind of something? (6)
24 Perfect – me to serve! (5)
26 Fortune made by a driver, possibly (4)

Solution 8,636

ADESTE ANGELS / BANANAS FIDELES / CHRISTIANS AFAR / OWNER EGGHEADS / STACCATO AWAKE / ROTA EMISSARIES / HARKTHE PULPITS / HERALD EDISON

صكدا من الاصل

صكرا من الاجل

LONDON STOCK EXCHANGE

MARKET REPORT

Footsie poised to attack 3,000 after bid move

By Steve Thompson

The UK market shrugged aside a series of disappointing economic numbers from both sides of the Atlantic, preferring to latch on to news of a probable bid for Northern Electricity from Trafalgar House.

"A bid from Trafs for Northern seems certain to trigger a series of bids and counter-bids in the sector, and will drive the market sharply higher by the end of the year," said the head of trading at one of the City's biggest securities houses.

Speculation of stakebuilding and possible bids has been rife in the electricity sector for a number of weeks. Northern Electricity shares began to outpace the rest of the sector as long as a month ago as the stories began to take hold. And Northern issued a statement to the market around midday – two hours before the Trafalgar news broke – saying it knew of no substance to the bid speculation of recent days.

At the close the FT-SE 100 Index was 34.2 higher at 2,980.6 and looking set fair to attack the 3,000 level, dealers said. The bid news in the recs ignited the rest of the market, where the second liners jumped for joy. The FT-SE Mid 250 Index climbed 32.4 to 3,405.7.

The equity market was up and running long before the Northern/Trafalgar news was released, with rumours of bids in the utilities, merchant banks and other sectors being talked around the trading desks. Wall Street's steady showing overnight gave added impetus to European markets.

The FT-SE 100 opened firmer at 2,950.2 and made rapid progress throughout the day, pausing only to ponder what were seen as marginally disappointing inflation numbers and average earnings.

A headline inflation figure showing a rise of 2.6 per cent on an annualised basis compared with estimates of around 2.5 per cent, while average earnings were in line with forecasts. The market was encouraged by the 1.7 per cent fall in unit wage costs in the latest three months.

With Wall Street opening in good shape and up more than 13 points within minutes in the face of consumer price index numbers and capacity utilisation figures broadly in line with expectations, London gathered itself for another sharp advance.

The Northern Electricity news, plus a good opening by Wall Street, which jumped 13 points on the Dow Industrial Average in spite of slightly disappointing inflation news, injected a massive dose of enthusiasm into London, which raced ahead during the afternoon.

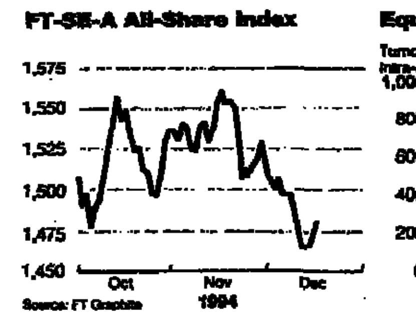
One dealer said that although the market had been full of bid speculation, the actual timing of the Northern news caught marketmakers on the wrong foot. "The market was generally short and got caught," he said, adding that the feeling was now that the bid fever would probably feed into other sectors. He also pointed out that the expiry on Friday of a whole series of derivatives instruments, in the UK as well as Germany and the US, would trigger all sorts of exaggerated market swings: "We are going to see some fun and games and possibly some jiggery-pokery in the market on Friday," he added.

Another senior dealer said he envisaged "open season in the recs and the merchant banks which will drive the market higher; the only worry for London comes from Wall Street, which many see as heading for a fall".

There were plenty of other stories circulating in the market. Dealers said they expected firm details on the S.G. Warburg/Morgan Stanley merger discussions to emerge on Monday, with Warburg shares racing up again. BP shares performed exceptionally well after a well received presentation to analysts.

Standard Chartered was one of the Footsie's most disappointing performers, the shares being upset by yet more hints that Lloyds Bank's 4.7 per cent stake may soon be on the move.

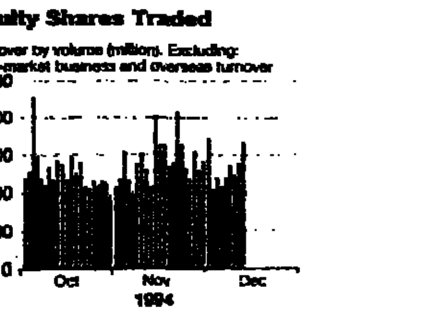
■ FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (millions). Excluding: intra-market business and overseas turnover



■ Key indicators

Indices and ratios

FT-SE 100	2980.6	+34.2	FT Ordinary index	2292.60	+25.6
FT-SE Mid 250	3405.6	+32.4	FT-SE-A Non Fins p/e	17.76	(17.57)
FT-SE-A 350	1494.7	+16.4	FT-SE100 Fut Dec	2978.0	+38.0
FT-SE-A All-Share	1481.19	+15.09	10 yr Gilt yield	8.62	(8.66)
FT-SE-A All-Share yield	4.13	(4.18)	Long gilt/equity yld ratio:	2.10	(2.08)

Best performing sectors

1 Electricity +3.5
2 Water +3.4
3 Insurance +2.8
4 Utilities +2.2
5 Transport +1.6

Worst performing sectors

1 Textiles & Apparel -0.4
2 Building & Const -0.4
3 Other Financial -0.2
4 Printing, Paper -0.2
5 FT-SE SmallCap ex IT -0.1

Bid hint sparks Recs

Bid fever gripped the regional electricity companies (recs) sector after international conglomerate Trafalgar House confirmed recent speculation that it is considering making a takeover bid for Northern Electricity.

The stock moved sharply ahead at the outset fuelled by continued bid talk. Momentum was lost briefly around midday when Northern said it knew of no substance for the rumours. Two hours later Trafalgar confirmed that it was considering a bid and Northern showed a 122p gain before coming off the top to close a net 100 ahead at 1010p on volume of 4.3m.

Much of the activity was said to have been executed by Swiss Bank Corp, Trafalgar's advisers, who were thought by rival dealers to have built up a near 3 per cent stake in Northern over the past few weeks.

Analysts said Trafalgar may have to launch a rights issue to fund the acquisition. Commentators pointed to 25 per cent stakeholder Hong Kong Land and its parent Jardine Matheson as possible underwriters.

But one specialist warned that Trafalgar's move was an attempt to take advantage of Northern's cash position. "It may find that the regulator might put a ring fence around the company to prevent it from getting at the cash." Another viewed it simply as a way for Hong Kong Land to move funds into the UK before 1997.

The general view remained that Trafalgar's move is the opening shot in what is likely to be a long and drawn out battle. Yorkshire, 26 up at 741p, and Scottish Power, 11½ ahead at 343p, were mentioned as the most likely white knights. Southern, 30 higher at 786p, was also seen as a possible contender, as was Hanson, which gained a penny at 228p. A two-way pull in Trafalgar brought volume of 19m as the shares put on a penny at 72p.

The excitement brought about by the move on Northern Electricity ignited takeover speculation in the rest of the sector. South West jumped 55 to 843p and South Wales raced ahead 41 to 827p. Manweb, which reported a 40 per cent dividend increase, strengthened 51 to 831p on the bid talk.

Composite insurers received a boost from a UBS valuation which landed on clients' desks yesterday morning and argued that the sector as a whole was undervalued by 16 per cent.

The research, part of an ongoing model that has been "back tested" against performances since 1981, highlighted General Accident. Analyst Mr Christopher Hitchings commented: "When we launched the model in the summer, GA was not good value, but since then it has underperformed massively." Mr Hitchings turned buyer of the stock and the shares bounced 22 to 516p.

Elsewhere, Commercial Union gained 18 at 513p, Sun Alliance 10 at 302p and Guardian Royal Exchange 5 at 176p. Dealers said SGST was also recommending the sector.

Oil major British Petroleum advanced 9 to 412¼p as investors took heart from a key presentation to analysts. The profits forecasts matched those already in place but the market liked the commitment to reduce debts.

Smith New Court was recommending the stock, arguing that the company's estimates implied gearing of only 37 per cent by 1996, down from 59 per cent in the third quarter. SGST also came away talking of "an impressive performance revealing steady progress".

Elsewhere in the utilities, shares in Southern Water moved ahead 31 to 570p after the group reported favourable figures.

Merchant bank S.G. Warburg improved 14 to 798p, with some dealers suggesting that an announcement over the possibility of a link with Morgan Stanley, of the US, would come on Monday.

Until an announcement is made the shares will reflect the various views in the market over Warburg's potential valuation. Some analysts argue that at current levels the shares are already at a premium to the fundamental valuation. Others believe the lower rating of Morgan Stanley will be countered by Warburg's enhanced earnings and net assets.

Cazenove has apparently been putting the case for Warburg shares to trade around 700p. However, Credit Lyonnais Laing cites the takeover of Morgan Grenfell by Deutsche Bank which, at 2.4 times book value, would suggest a takeout price around £11. Warburg's fund management arm Mercury Asset Management rose a further 27 to 745p.

Some concern over Royal Bank of Scotland's insurance arm saw the Scottish clearer's shares slip 4½ to 399½p.

Transport group NFC climbed strongly for the second day running, adding 7 at 160p following the purchase of a large line of shares by a board member. Turnover was 4.1m shares, and the stock has now risen almost 9 per cent in two sessions.

Newly floated TeleWest Communications hardened to 179½p in 2.1m turnover to modestly reverse the recent run of weakness, which at one stage yesterday left the shares 4 short of their 182p issue price.

Traders suggested that TeleWest had been supported by Kleinwort Benson, joint issue broker, which has until December 30 to smooth the market in the shares.

The stock market's feeling was that TeleWest had suffered from a flow-back from the US tranche of the issue in the wake of the continued weakness of telecom stocks on Wall Street.

Vodafone added 2¼ at 197p in 9m turnover, while BT rounded off an active day for the sector, rising 4 to 373½p in 7.3m shares traded.

Building materials leader Caradon recovered following a buy recommendation from UBS which said the recent derating has left the shares cheap on both yield and balance sheet criteria. They ended 6 higher at 234p in 2.5m turnover.

British Steel was the most actively traded Footsie stock, ending 3½ ahead at 156½p in turnover of 14m. Similarly, British Aerospace regained all and more of Tuesday's sell-off, rising 7½ to 427½p, with Kleinwort Benson placing the 3m shares not taken up within the recent rights issue.

Among smaller engineering stocks, Whessoe forged ahead 15 to 121p for a two-day advance of 22p.

Food manufacturer Cadbury-Schweppes fell 5 to 409p in heavy trading of 7.7m shares, with Hoare Govett, the group's broker, cutting current year profits expectations. BZW also reduced expectations but remains a buyer.

Shares in train set manufacturer Hornby hit the buffers after the USM-quoted company issued a profits warning. The stock fell 50 to 127p.

Brokers' downgradings left furniture group MFI trailing 2½ at 122p.

MARKET REPORTERS: Peter John, Joel Kibazo, Jeffrey Brown.

■ Other statistics, Page 30

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (14).
BUILDING & CNSTRN (1) Andrews Sykes, DISTRIBUTORS (1) Middlesex, ELECTRICITY (5) Northern, Seaboard, South Western, ELECTRNC & ELECT EQUIP (2) Copyrone, VideoLogic, ENGINEERING (2) Lucas, Vosper, ENG. VEHICLES (1) First Technology, OIL EXPLORATION & PROD (2) Aran Energy, Crusader, OTHER SERVS & BUSNS (1) Greenway, PRTNG, PAPER & PACKG (1) Portals.
NEW LOWS (141).
GILTS (2) BANKS (2) BUILDING & CNSTRN (10) AMEC, Do 6¾p Cnv. Pf., Abbey, Berkeley, Henden-Stuart, McAlpine (A), Persimmon, Try, Wilson Bowden, Wilson (C), BLDG MATLS & MCHTS (8) CHEMICALS (3) Cemestone, Hickson Int'l., Kalon, DISTRIBUTORS (8) Brown & Tawse, Glenchewton, Lex Service, Welpac, Wholesale Fittings, Wills, DIVERSIFIED INDLS (3) ELECTRNC & ELECT EQUIP (8) Chloride, GEC, Kenwood Appliances, Pacer Systems, Riva, Volex, ENGINEERING (5) Cook (Wm), McKechnie, ENG. VEHICLES (3) BSG Int'l., Mid-States, Select Inds., EXTRACTIVE INDS (1) MIM, FOOD MANUF (3) Cadbury Schweppes, Pascoe's, HEALTH CARE (3) Amersham International, Assoc. Nursing Servs., Isotron, HOUSEHOLD GOODS (6) Airsprung Furniture, Black (P), Fine Decor, Jeyes, Stoddard, Wyefield, INSURANCE (3) Hibernian, Premium Trust, Willis Corroon, INVESTMENT TRUSTS (17) INVESTMENT COMPANIES (3) LEISURE & HOTELS (3) MEDIA (4) OIL EXPLORATION & PROD (3) Hardy, Sun Res., Victoria, OIL, INTEGRATED (1) Burmah Castrol, OTHER FINANCIAL (6) OTHER SERVS & BUSNS (1) Waste Management Int'l., PHARMACEUTICALS (2) Cantab Pharms., Ransom (Wm.), PRTNG, PAPER & PACKG (3) PROPERTY (17) RETAILERS, FOOD (1) Shoprite, RETAILERS, GENERAL (8) Body Shop Int'l., Brown (N), Essex Furniture, Fine Art Devlps., MFI, WEW, SPIRITS, WINES & CIDERS (1) Allied Domecq, SUPPORT SERVS (5) TELECOMMUNICATIONS (1) TEXTILES & APPAREL (5) TRANSPORT (1) AMERICANS (1) CANADIANS (2).

EQUITY FUTURES AND OPTIONS TRADING

Stock index futures moved ahead strongly in improved turnover, with the session marked by the almost complete absence of selling pressure, *writes Jeffrey Brown*.

The FT-SE 100 December contract had reached 2,978 at the close of pit trading, while the March contract was at 2,997. The gains were 39 and 42 points respectively.

December's discount to the cash market was two points, or four points under fair value, while March closed at a 17-point premium, or five points short of fair value.

Dealers said there was good steady business throughout the session, with active participation by a number of the bigger houses, notably NatWest Securities and GNI.

Trading volume rose to 17,425 lots for the December contract and 10,706 for March, of which more than 8,000 were thought to be the result of spread trading.

There were few attempts to apply direction to the cash market, but dealers said sentiment showed a clear improvement. At one stage the March contract traded above 3,000.

Traded option turnover improved to 43,329 lots, from 39,329 on Tuesday. FT-SE and Euro FT-SE business accounted for more than 29,000 contracts.

The most active individual option was Tesco, followed by British Gas and BT. Tesco saw 1,930 lots dealt.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	2943.0	2978.0	+38.0	2985.0	2936.0	19790	30250
Mar	2959.0	2996.0	+39.5	3003.0	2958.0	11058	38037
Jun	2997.0	3005.0	+38.0	2997.0	2997.0	350	2242

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		3405.0	+35.0			0	1774
Mar		3435.0	+34.0			0	3592

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	3400.0	-	-	-	-	287

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*2980) £10 per full index point

	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P
Dec	180	1	139	1	81½	2½	37½	7½	9½	31	1½	75	1	125	1	175
Jan	298	19	167½	28	132½	43	100½	62½	72	85	58	115	31½	148	18½	186½
Feb	227½	30	191	43½	154½	58½	125	79½	86	102	72½	129	51	158½	36½	195
Mar	239	46	204	59	169½	74½	140½	95½	111	117½	89	146	68	175½	52½	210½
Jun†	271½	73			207½	107			158½	149			196	205		

Calls 13,215 Puts 12,326

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	2825 C	2825 P	2875 C	2875 P	2925 C	2925 P	2975 C	2975 P	3025 C	3025 P	3075 C	3075 P	3125 C	3125 P	3175 C	3175 P
Dec	153½	1	100½	2	58½	5½	21½	18½	2½	50	1	97	1	147	1	197
Jan	182½	21½	144	33	110½	48½	81	69½	57½	95	38½	126	24½	161½	15	201½
Feb	205	35	179	49½	135½	64½	108	86	81½	109	61½	139	44	170½	31½	207½
Mar	216½	48½	182½	63½	151	81	123	102	98	126½	76½	154	58	185	43½	219½
Jun†	258½	82			195½	118			143	162			190	216		

Calls 2,363 Puts 2,667 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

	3350	3400	3450	3500	3550	3600	3650	3700
Dec	59¼ 2¼	21⅞ 14¾	4¾ 47⅛					

Calls 0 Puts 0 Settlement prices and volumes are taken at 4.30pm.

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	678	333	+1
ASDA Group†	4,700	63½	
Abbey National†	2,500	406	+7
Albert Fisher	2,700	44	+1
Allied Domecq†	2,000	534	+5
Anglian Water	1,700	498	+15
Argos	1,200	331	
Argyll Group†	5,700	245½	+5
Arjo Wiggins†	6,300	239½	-7
Assoc. Brit. Foods†	415	557	-1
Assoc. Brit. Ports	536	259	+7
BAA†	3,000	468	+9
BAT Inds.†	5,300	431	+5½
BET	3,400	103½	+2
BICC	1,100	336	+4
BOC†	933	712	+5
BP†	12,000	412½	+9
BPB Inds.	2,700	252	
BT†	7,300	373½	+4
BTR†	6,600	277	
Bank of Scotland†	374	208	+4
Barclays†	3,100	591	+1
Bass†	940	520	+9
Blue Circle†	1,500	270	-4
Boots†	327	389	+2
Boots†	3,100	477	+7½
Bowater†	1,100	420	+6
Brit. Aerospace†	1,200	427½	+7½
British Airways†	1,800	355	+6
British Gas†	9,500	302	+3½
British Land	1,300	349	-7
British Steel†	14,000	156½	+3½
Bunzl	591	166	-2
Burmah Castrol†	1,400	797	-2
Burton	1,400	66	+½
Cable & Wire†	4,200	357½	+3½
Cadbury Schweppes†	7,700	404	-5
Caradon†	3,500	234	+6
Carlton Comms.†	667	849	+11
Coats Viyella	1,100	180	
Comm. Union†	1,300	513	+18
Cookson	485	240	+2
Courtaulds†	1,700	435	+8
Dalgety	289	418	
De La Rue†	83	926	+2
Dixons	5,700	179½	+3
Eastern Elect.†	2,100	784	+8
East Midland Elect.	1,800	769	+46
Electrocomps	580	467	-1
Eng China Clays	748	340	+17
Enterprise Oil†	430	380	+4
Eurotunnel Units	231	264	-1
FKI	287	150	+1
Fisons	564	113	
Foreign & Col. I.T.	1,900	131	
[illegible]			

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent.

LONDON EQUITIES

LIFFE EQUITY OPTIONS

Option		Calls Jan	Calls Apr	Calls Jul	Puts Jan	Puts Apr	Puts Jul
Allied Domecq (*533)	500	39	52½	60	1½	7½	13
	550	8	22½	31	21	27	34½
Argyll	240	12	21½	23½	4½	8	14
[illegible]							

Option		Calls Feb	Calls May	Calls Aug	Puts Feb	Puts May	Puts Aug
Hanson (*228)	220	14	17½	20½	4	8	11
	240	4½	8	11	14	18½	21½
Lasmo	130	11½	15½	18½	4	8½	7
[illegible]							

December 14 Total contracts: 43,757 Calls: 27,835 Puts: 15,922 * Underlying security price. Premiums shown are based on closing offer prices.

FT GOLD MINES INDEX

	Dec 14	% chg on day	Dec 13	Dec 12	Year ago	Gross div yield %	52 week High	52 week Low
Gold Mines Index (34)	1867.81	+1.1	1846.45	1844.38	2181.30	2.36	2387.40	1782.62
■ Regional indices								
Africa (16)	2841.54	+1.2	2807.30	2933.30	3104.63	4.77	3711.87	2394.45
Australasia (7)	2212.93	+1.0	2188.38	2231.41	2680.21	2.35	3013.89	2171.88
North America (11)	1468.92	+1.1	1482.77	1463.32	1897.18	0.80	2038.55	1417.60

Copyright, The Financial Times Limited 1994. Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. Predecessor Gold Mines Index: Dec 14: 218.5; day's change: +2.3 points; Year ago: 251.8 † Partial. Latest prices were unavailable for this edition.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	57	3	10
Other Fixed Interest	5	6	3
Mineral Extraction	54	41	101
General Manufacturers	128	127	373
Consumer Goods	49	41	96
Services	84	90	317
Utilities	37	1	5
Financials	82	59	224
Investment Trusts	52	28	342
Others	40	29	47
Totals	631	425	1518

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings December 5 Expiry March 9
Last Dealings December 16 Settlement March 23

Calls: Suter Mining, Callanas, Division Grp, Firth (GM), Middlesex Hldgs, SmithGrive Beecham A, Tadpole Tech, Trafalgar House, VideoLogic.

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1994 High	1994 Low	Stock	Closing price p	+or-
190	Nil	25/1	30pm	18pm	Cowie	18pm	
50	Nil	23/1	3pm	1pm	Division Grp	2pm	+2
50	Nil	3/1	6pm	2pm	[illegible]	2pm	
12	Nil	3/1	3pm	¾pm	Sabre	¾pm	
25	Nil	16/1	4pm	¾pm	Usborne	¾pm	

FINANCIAL TIMES EQUITY INDICES

	Dec 14	Dec 13	Dec 12	Dec 9	Dec 8	Yr ago	High	*Low
Ordinary Share	2292.6	2267.0	2265.7	2293.3	2323.2	2498.5	2713.6	2240.6
Ord. div. yield	4.55	4.60	4.61	4.55	4.50	3.78	4.81	3.43
Earn. yld. % full	6.67	6.75	6.75	6.67	6.59	4.31	6.75	3.52
P/E ratio net	17.31	17.11	17.09	17.31	17.50	25.26	23.43	15.94
P/E ratio nil	16.69	16.88	16.87	16.87	17.07	27.15	30.80	16.67

*For 1994. Ordinary Share index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2268.1	2274.8	2277.5	2285.8	2288.6	2289.7	2282.5	2288.0	2291.8	2292.6	2267.4

	Dec 14	Dec 13	Dec 12	Dec 9	Yr ago
SEAQ bargains	19,830	18,267	19,913	20,147	18,710	28,608
Equity turnover (£m)†	-	1599.3	1368.4	1130.9	1340.9	1828.5
Equity bargains†	-	25,688	27,306	25,260	24,706	33,218
Shares traded (mil)†	-	692.1	577.7	497.8	547.0	674.3

†Excluding intra-market business and overseas turnover.

FT - SE Actuaries Share Indices — The UK Series

	Dec 14	Day's chge%	Dec 13	Dec 12	Dec 9	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	2980.6	+1.2	2946.4	2943.4	2977.3	3278.8	4.32	7.47	15.82	124.28	1135.96
FT-SE Mid 250	3405.6	+1.0	3373.2	3372.4	3395.8	3831.6	3.73	6.09	19.77	130.11	1279.35
FT-SE Mid 250 ex Inv Trusts	3405.0	+1.0	3370.7	3370.7	3395.2	3825.0	3.90	6.59	18.38	135.92	1277.04
FT-SE-A 350	1494.7	+1.1	1478.3	1477.0	1492.5	1633.0	4.19	7.15	16.57	61.15	1165.44
FT-SE SmallCap	1727.68	-0.1	1728.91	1732.76	1739.83	1782.04	3.45	5.13	24.69	55.07	1348.74
FT-SE SmallCap ex Inv Trusts	1697.06	-0.1	1698.94	1703.39	1710.57	1740.59	3.67	5.72	22.53	57.24	1329.27
FT-SE-A ALL-SHARE	1481.19	+1.0	1466.10	1465.19	1479.86	1612.43	4.13	7.01	16.97	59.68	1174.53

■ FT-SE Actuaries All-Share

	Dec 14	Day's chge%	Dec 13	Dec 12	Dec 9	Year ago	Div. yield%	Earn yield%	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(18)	2618.21	+1.0	2592.21	2582.48	2594.08	2414.28	3.63	5.22	24.21	89.83	1057.02
12 Extractive Industries(4)	3700.64	+1.5	3647.51	3655.95	3700.34	3445.21	3.47	5.54	22.30	96.82	1021.16
15 Oil, Integrated(3)	2593.09	+0.9	2568.75	2552.71	2558.37	2369.15	3.75	5.79	21.50	98.44	1070.84
16 Oil Exploration & Prod(11)	1802.42	+0.6	1792.26	1808.13	1821.18	1717.34	2.72	‡	‡	38.03	1042.85
20 GEN MANUFACTURERS(267)	1783.21	+0.5	1773.48	1763.24	1804.00	1943.80	4.36	5.64	21.42	75.61	916.04
21 Building & Construction(33)	941.84	-0.4	945.23	954.62	965.82	1210.16	4.15	6.19	21.34	37.70	743.39
22 Building Matls & Merchs(32)	1702.83	+0.4	1696.84	1716.57	1740.68	2086.26	4.39	6.04	19.95	74.23	809.82
23 Chemicals(23)	2218.14	+0.9	2198.18	2207.69	2222.61	2216.15	4.26	4.86	25.65	94.37	980.69
24 Diversified Industrials(16)	1695.20	+0.3	1690.80	1695.01	1720.31	1946.12	5.47	5.76	20.71	93.65	877.40
25 Electronic & Elect Equip(34)	1788.58	+1.3	1765.56	1766.74	1802.38	1984.27	4.27	7.06	16.67	62.64	877.14
26 Engineering(71)	1771.38	+1.1	1752.94	1766.19	1775.35	1747.86	3.41	5.55	21.17	80.16	1020.61
27 Engineering, Vehicles(12)	2170.12	+0.7	2154.80	2163.33	2174.91	2063.08	4.62	1.59	80.00†	93.03	1061.68
28 Printing, Paper & Pckg(26)	2680.92	-0.2	2686.11	2701.19	2743.80	2558.92	3.27	5.82	19.98	84.50	1060.22
29 Textiles & Apparel(20)	1491.25	-0.4	1497.78	1498.45	1509.33	1822.60	4.52	6.64	19.53	65.81	853.54
30 CONSUMER GOODS(97)	2710.19	+1.3	2676.69	2665.08	2692.53	2892.54	4.47	7.44	15.60	117.59	940.36
31 Breweries(17)	2160.59	+1.2	2134.22	2130.10	2156.28	2303.92	4.45	8.34	14.47	69.28	971.53
32 Spirits, Wines & Ciders(10)	2637.96	+1.5	2600.07	2602.78	2644.43	2955.65	4.33	7.21	16.02	113.28	891.92
33 Food Manufacturers(23)	2233.21	+0.8	2215.63	2204.89	2218.86	2372.96	4.41	7.91	14.98	100.85	848.61
34 Household Goods(13)	2305.51	+1.0	2282.16	2273.87	2281.44	2646.28	3.96	7.87	15.32	90.45	835.08
36 Health Care(21)	1535.96	.....	1535.37	1538.42	1542.18	1708.45	3.29	3.50	40.46	51.92	886.96
37 Pharmaceuticals(12)	3151.28	+1.6	3103.04	3076.84	3104.04	3101.02	4.28	6.83	16.93	133.07	1010.89
38 Tobacco(1)	3611.50	+1.2	3569.56	3556.97	3611.50	4421.05	6.01	9.52	11.28	217.07	823.81
40 SERVICES(218)	1832.73	+0.6	1821.56	1821.29	1834.11	1998.62	3.43	6.98	17.27	64.38	907.81
41 Distributors(30)	2489.14	+0.1	2486.87	2503.43	2515.49	2862.48	3.98	7.43	15.83	92.80	869.53
42 Leisure & Hotels(25)	2059.76	+1.0	2040.09	2053.89	2066.41	2017.21	3.45	5.39	21.71	58.11	1018.57
43 Media(36)	2753.58	+0.1	2751.45	2751.96	2789.74	2811.63	2.56	5.56	21.02	71.49	958.79
44 Retailers, Food(16)	1671.91	+0.4	1665.24	1666.41	1672.70	1698.49	3.92	9.53	12.87	65.24	1008.96
45 Retailers, General(45)	1509.42	+0.7	1499.42	1485.20	1485.93	1812.06	3.55	7.88	18.24	69.68	821.13
48 Support Services(41)	1443.44	+0.2	1441.14	1454.01	1457.84	1602.90	2.97	6.80	17.33	41.60	883.28
49 Transport(16)	2168.97	+1.6	2133.97	2139.05	2156.39	2497.30	3.93	6.42	18.32	72.24	856.69
51 Other Services & Business(8)	1217.49	+0.1	1216.47	1228.44	1233.75	1132.55	3.66	3.97	35.07	38.11	1056.38
60 UTILITIES(36)	2333.95	+2.2	2284.79	2280.49	2308.22	2630.57	4.64	8.13	14.95	99.90	909.10
62 Electricity(17)	2483.42	+3.5	2400.28	2367.38	2406.45	2398.92	3.86	10.02	11.94	112.37	1044.96
64 Gas Distribution(2)	1999.12	+1.1	1977.11	1996.55	2009.96	2347.18	5.99	‡	‡	119.82	939.97
66 Telecommunications(4)	1912.32	+1.1	1891.85	1895.14	1921.42	2333.25	4.45	8.21	14.82	57.29	818.49
68 Water(13)	1733.30	+3.4	1675.53	1644.87	1694.32	2067.52	5.78	14.18	7.67	99.86	881.51
69 NON-FINANCIALS(636)	1598.99	+1.0	1582.40	1581.70	1596.74	1715.21	4.13	6.76	17.76	64.01	1139.48
70 FINANCIALS(104)	2105.77	+1.1	2083.21	2080.40	2109.63	2472.85	4.58	9.46	12.26	95.79	840.49
71 Banks(10)	2785.09	+1.0	2758.22	2745.25	2781.24	3192.09	4.36	10.50	10.91	120.90	898.72
73 Insurance(17)	1171.23	+2.8	1139.78	1139.79	1160.87	1473.56	5.46	10.42	10.94	63.13	808.65
74 Life Assurance(6)	2307.47	+1.1	2283.15	2278.20	2327.45	2717.07	5.54	8.08	15.10	127.82	893.02
75 Merchant Banks(6)	3080.97	+0.7	3060.19	3080.62	3053.75	3202.65	3.37	9.04	12.87	103.78	935.75
77 Other Financial(24)	1813.31	-0.2	1817.27	1823.88	1827.25	1827.30	4.00	8.58	14.04	70.54	976.31
79 Property(41)	1322.74	+0.5	1315.79	1328.05	1338.79	1786.94	4.66	5.04	24.70	59.57	786.66
80 INVESTMENT TRUSTS(124)	2657.07	+0.4	2646.97	2643.40	2653.67	2849.79	2.40	2.01	49.81	61.14	896.12
89 FT-SE-A ALL-SHARE(864)	1481.19	+1.0	1466.10	1465.19	1479.86	1612.43	4.13	7.01	16.97	59.68	1174.53

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	2950.0	2958.3	2964.0	2970.8	2966.1	2965.5	2968.4	2974.4	2979.9	2982.5	2949.0
FT-SE Mid 250	3374.7	3376.7	3382.3	3387.4	3388.7	3385.3	3393.9	3404.6	3405.3	3408.7	3373.5
FT-SE-A 350	1479.8	1483.2	1486.0	1489.0	1487.2	1487.3	1488.1	1492.2	1494.4	1495.7	1479.3

Time of FT-SE 100 Day's high: 3:50pm Day's low: 8.42am. FT-SE 100 1994 High: 3520.3(2/2) Low: 2876.6 (24/6).

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	882.9	882.0	880.1	880.4	881.0	881.6	881.6	881.8	881.4	881.4	884.7	-3.3
Pharmaceuticls	3092.5	3099.1	3115.4	3124.5	3116.7	3118.5	3117.6	3119.4	3125.4	3126.2	3077.5	+48.7
Water	1674.6	1674.4	1685.4	1687.0	1688.9	1690.4	1694.8	1744.9	1734.2	1729.8	1671.4	+58.4
Banks	2800.8	2809.3	2812.6	2814.6	2812.2	2810.7	2808.3	2814.2	2821.0	2820.6	2793.3	+27.3

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT, Fitzroy House, 13-17 Epworth Street, London EC2A 4DL.
The FT "500" has been renamed FT-SE-A Non-Financials index. The FT-SE 100, the FT-SE Mid 250, FT-SE Actuaries 350 and the FT-SE Actuaries Industry baskets are calculated by the International Stock Exchange of the United Kingdom and Republic of Ireland and the FT-SE Actuaries All-Share index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules.

"FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited. The FT-SE Actuaries Share Indices are audited by The WM Company. † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. NAME CHANGE: Tiphook is now Central Trans. Rental (49).

LONDON SHARE SERVICE

BANKS

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	1994 high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL EXPLORATION & PRODUCTION - Cont.

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PHARMACEUTICALS

[illegible]

PRINTING, PAPER & PACKAGING

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

	Notes	Price	+ or -	1994 high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								
Toronto-Dom		833xd	$-\frac{1}{8}$	11¼	9¼	2,814	4.3	
Trans Can Pipe	¥	733	$+\frac{1}{8}$	10¼	733	1,042	4.9	

SOUTH AFRICANS

	Notes	Price	+ or -	1994 high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		234	—	234	£13½	2,217	2.2	24.9
Barlow	♣	£5⅞xd	—	£9⅞	£3⅞	1,068	1.6	♦
Gold Flds Prop R		116xd	—	128	75	12.1	7.9	♦
MK Props		85	—	98	65	3.82	12.7	–
SASOL	¥	482	—	582	280	2,837	2.8	–
SA Brews	¥	£14⅜xd	—	£16⅛	£10	4,041	2.0	22.6
Tiger Oats		760xd	—	838	538	1,147	2.0	17.9
Tongaat-Hulett	††h	720xc	—	*725	358¼	880.5	2.0	21.0

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ¥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) UK & Irish incorporated non-listed companies.
- ✦ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. v Not subject to ACT. z Dividend yield includes a special payment. F Yield based on prospectus or other official estimates for 1994-95. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1993. K Yield based on prospectus or other official estimates for 1994. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1993-94. N Figures based on IIMR 'Headline Earnings' P Figures based on prospectus or other official estimates for 1994. R Forecast annualised yield, p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

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	Selling Price	+ or -	Yield Gr's
A$ Accum	A$17.107	+0.007	5.60
A$ Dist	A$15.252	+0.007	5.60
ASch Accum	Sch238.78	+0.07	3.50
ASch Dist	Sch232.89	+0.08	3.50
BFr Accum	BFr533.83	+0.16	3.00
BFr Dist	BFr507.04	+0.16	3.00
C$ Accum	C$17.121	+0.005	4.20
C$ Dist	C$15.226	+0.005	4.20
DKr Accum	DKr106.75	+0.04	4.30
DKr Dist	DKr101.83	+0.04	4.30
DM Accum	DM36.374	+0.011	4.00
DM Dist	[illegible]	[illegible]	4.00
DFl Accum	[illegible]	[illegible]	3.80
DFl Dist	[illegible]	[illegible]	3.80
ECU Accum	Ecu17.504	[illegible]	4.80
ECU Dist	Ecu10.173	[illegible]	4.80
FM Accum	FM104.46	+0.03	2.80
FM Dist	FM100.98	+0.02	2.80
FFr Accum	FFr52.144	[illegible]	4.30
FFr Dist	FFr50.798	[illegible]	4.30
HK$ Accum	HK$110.45	+0.04	4.70
HK$ Dist	HK$101.52	+0.04	4.70
I£ Accum	I£11.327	[illegible]	4.00
I£ Dist	I£10.150	[illegible]	4.00
Lire Accum	L20183	+12	7.70
Lire Dist	L15411	+10	7.70
NZ$ Accum	[illegible]	[illegible]	8.80
NZ$ Dist	[illegible]	[illegible]	8.80
NKr Accum	NKr104.90	+0.04	4.70
NKr Dist	NKr101.47	[illegible]	4.70
Pta Accum	[illegible]	+1.2	8.20
Pta Dist	[illegible]	+1.4	8.20
S$ Accum	S$25.446	[illegible]	1.50
S$ Dist	S$25.113	[illegible]	1.50
SPta Accum	[illegible]	+1.2	[illegible]
SPta Dist	[illegible]	+1.0	[illegible]
£ Accum	£11.972	[illegible]	4.70
£ Dist	£10.155	[illegible]	4.70
SKr Accum	SKr107.86	[illegible]	6.30
SKr Dist	SKr102.53	[illegible]	6.30
SFr Accum	[illegible]	[illegible]	2.60
SFr Dist	[illegible]	[illegible]	2.60
US$ Accum	$21.547	[illegible]	4.50
US$ Dist	$20.382	[illegible]	4.50
Yen Accum	Y3876.4	+0.2	1.00
Yen Dist	Y2500.7	+0.2	1.00

Prices for dealing December 14

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

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CURRENCIES AND MONEY

MARKETS REPORT

Interest rate optimism gives boost to US markets

Eurodollar futures rose sharply yesterday as fears of a rise in US interest rates next week receded, *writes Philip Gawith.*

This helped prices across the yield curve, with the March eurodollar contract rising to 92.76 from 92.62.

Markets had been discounting the possibility of the Federal Reserve raising rates when it meets next Tuesday.

The dollar weakened slightly to finish in London at DM1.5691, from DM1.5728, and at Y100.26 from Y100.395.

Elsewhere, the Australian dollar finished unchanged at 77.52 US cents. Earlier it had touched a three year high of 77.8 cents, during Asian trading, after the Reserve Bank raised interest rates by 100 basis points to 7.5 per cent.

Sterling lost half a pfennig against the stronger D-Mark, closing at DM2.4513 from DM2.4569, but was unchanged against the dollar at $1.5632.

The D-Mark maintained its firmer showing in Europe, but there was little significant movement in rates. The peseta weakened to Pta84.13 against the D-Mark from Pta84.0.

■ The catalyst for the performance of US interest rate markets was better than expected consumer inflation and capacity utilisation figures.

The view that a rise in US interest rates might be deferred caused a short-covering rally in D-Mark and short sterling futures. The March short sterling contract rose by five basis points to 92.55, while the same D-Mark contract rose to 94.30 from 94.27.

Mr Richard Phillips, analyst at brokers GNI, said: "The Americans have given us the lead today and we have eagerly taken it."

■ **Pound in New York**

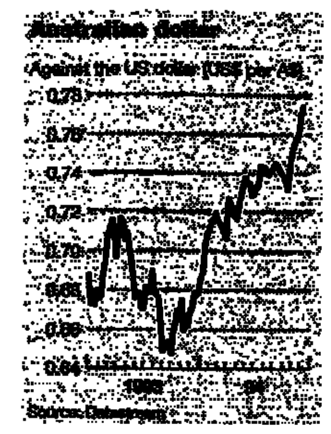
Dec 14	--Latest--	--Prev. close--
£ spot	1.5620	1.5595
1 mth	1.5619	1.5594
3 mth	1.5616	1.5593
1 yr	1.5607	1.5585

Volumes were very heavy, with the March eurodollar contract trading over 200,000 lots. One trader commented on the buoyant state of market, noting "Every single trade I did today was a buy – either short covering, or book tidying ahead of Christmas."

Mr Jonathan Griggs, economic adviser at Barclays in London said sentiment had also been affected by the publication of a report in Washington saying interest rates would not be raised next week. The report came from a consultancy reputed to have close ties to the Federal Reserve.

Not everyone shares this sanguine view about next week's meeting. Mr Wayne Angell, chief economist at Bear Stearns, and until recently a Fed governor himself, said that a 50 basis point rise in rates "seems logical".

Along the same lines, Mr David Munro, chief US economist at High Frequency Economics in New York, has increased the odds of a rate rise next week to even money following the release of retail sales data earlier this week.



He believes the Fed is more focused on retail sales as current evidence that the economy is heating up, than on producer prices, which are a backward looking indicator.

■ The Australian dollar's progress is the function of rising interest rates and buoyant commodity prices. Commodity exports are an important dimension of the Australian economy.

The dollar also benefited from the surprise element in yesterday's move. Most traders in the market had been expecting interest rates to rise last week.

The outlook is for further rises in interest rates, which should help the dollar. One economist noted: "There is mounting concern about the sustainability of economic growth. This could force the Reserve Bank to push rates even higher."

Rising economic growth next year in the industrial world, should bolster commodity prices, lending further support to the dollar. Many analysts expect the Australian dollar to rise to 80 US cents during 1995.

■ The D-Mark continued to profit from political worries in Europe – notably in Italy and France, and also in the UK ahead of today's Dudley West by-election. The latest opinion poll gave the opposition Labour Party an almost unheard of 50 percentage point lead. This put the pound under some pressure against the D-Mark.

Analysts said the dollar's ability to remain reasonably firm, while the D-Mark was also strong, showed that investors were switching between currencies in Europe, rather than between the dollar and the D-Mark.

■ The Bank of England cleared a £1.3bn shortage at established rates in its daily money market operations.

■ **OTHER CURRENCIES**

Dec 14	£	$
Hungary	176.135 - 176.359	112.770 - 112.870
Iran	2722.00 - 2732.00	1746.00 - 1750.00
Kuwait	0.4661 - 0.4664	0.2987 - 0.3004
Poland	37851.4 - 37936.2	24240 - 24280
Russia	5094.30 - 5098.70	3261.00 - 3263.00
UAE	5.7288 - 5.7411	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Dec 14		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.2537	-0.0554	465 - 609	17.2996	17.2182	17.2390	1.0	17.1993	1.3	-	-	115.4
Belgium	(BFr)	50.4607	-0.0827	291 - 922	50.5570	50.3530	50.4657	-0.6	50.3587	0.8	49.7957	1.3	116.9
Denmark	(DKr)	9.6099	-0.0276	057 - 141	9.6369	9.6021	9.6086	0.4	9.6141	-0.2	9.5806	0.3	116.8
Finland	(FM)	7.6296	+0.0082	200 - 391	7.6410	7.6100	-	-	-	-	-	-	87.3
France	(FFr)	8.4507	-0.017	463 - 551	8.4726	8.4413	8.4474	0.5	8.4445	0.3	8.3964	0.6	109.7
Germany	(DM)	2.4513	-0.0056	503 - 522	2.4579	2.4472	2.4501	0.6	2.4463	0.8	2.4116	1.6	125.4
Greece	(Dr)	379.080	-1.324	948 - 172	381.052	378.680	-	-	-	-	-	-	68.4
Ireland	(I£)	1.0153	-0.0004	146 - 159	1.0177	1.0135	1.0155	-0.2	1.0145	0.3	1.0133	0.2	105.1
Italy	(L)	2554.59	-5.78	371 - 547	2560.13	2549.77	2561.09	-3.1	2573.24	-2.9	2625.14	-2.8	73.1
Luxembourg	(LFr)	50.4607	-0.0827	291 - 922	50.5570	50.3530	50.4657	-0.6	50.3557	0.8	49.7957	1.3	116.9
Netherlands	(Fl)	2.7448	-0.0063	439 - 456	2.7513	2.7423	2.7432	0.7	2.7395	0.8	2.704	1.5	121.0
Norway	(NKr)	10.7026	-0.0279	962 - 070	10.7343	10.6771	10.7028	0.0	10.7016	0.0	10.6927	0.1	96.1
Portugal	(Es)	251.905	-0.146	622 - 188	252.389	251.429	252.725	-3.9	254.2	-3.6	-	-	95.1
Spain	(Pta)	206.205	-0.126	093 - 313	207.025	206.093	206.558	-2.1	207.218	-2.0	209.943	-1.8	85.0
Sweden	(SKr)	11.8115	+0.036	922 - 213	11.8346	11.7212	11.8268	-1.7	11.8618	-1.7	11.8903	-1.4	75.3
Switzerland	(SFr)	2.0723	-0.008	711 - 734	2.0776	2.0682	2.0682	2.4	2.0618	2.1	2.016	2.7	120.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	80.3
Ecu	-	1.2855	-0.0029	868 - 874	1.2893	1.2851	1.2856	0.1	1.2854	0.1	1.2811	0.4	-
SDR†	-	0.929937	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5590	-	586 - 594	1.5600	1.5550	-	-	-	-	-	-	-
Brazil	(R)	1.3263	+0.0109	245 - 281	1.3281	1.3142	-	-	-	-	-	-	-
Canada	(C$)	2.1694	+0.0013	659 - 672	2.1692	2.1631	2.1666	-0.2	2.1678	-0.3	2.1776	-0.5	86.8
Mexico	(New Peso)	5.3935	-0.003	908 - 961	5.4016	5.3850	-	-	-	-	-	-	-
USA	($)	1.5622	-	619 - 625	1.5634	1.5583	1.5623	-0.1	1.5623	0.0	1.5626	0.0	63.4
Pacific/Middle East/Africa													
Australia	(A$)	2.0154	+0.0001	148 - 164	2.0174	2.0046	2.0178	-1.1	2.0218	-1.3	2.0611	-1.8	-
Hong Kong	(HK$)	12.0817	+0.001	889 - 944	12.1007	12.0619	12.0377	5.4	12.0372	1.5	12.0522	0.3	-
India	(Rs)	49.0043	-0.0004	860 - 195	49.0400	48.6850	-	-	-	-	-	-	-
Japan	(Y)	156.626	-0.236	540 - 703	156.940	155.570	156.085	4.1	155.031	4.1	149.985	4.0	188.3
Malaysia	(M$)	4.0052	-0.0003	036 - 067	4.0079	3.9990	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.4603	-0.0019	489 - 617	2.4621	2.4394	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Philippines	(Peso)	37.7272	+0.0101	418 - 125	37.8500	37.3050	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Saudi Arabia	(SR)	5.8591	-	576 - 606	5.8637	5.8450	-	-	-	-	-	-	-
Singapore	(S$)	2.2918	+0.0004	905 - 930	2.2930	2.2867	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.5701	-0.0009	679 - 723	5.5727	5.5586	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.4285	-0.0232	116 - 453	6.4453	6.4280	-	-	-	-	-	-	-
South Korea	(Won)	1238.75	+0.66	843 - 906	1239.62	1235.66	-	-	-	-	-	-	-
Taiwan	(T$)	41.2484	+0.0096	373 - 594	41.2769	41.1485	-	-	-	-	-	-	-
Thailand	(Bt)	39.3105	+0.1005	271 - 938	39.3938	39.2271	-	-	-	-	-	-	-

†SDR rates for Dec 13. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100.Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 14		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	11.0445	-0.023	420 - 470	11.0780	11.0410	11.037	0.8	11.0205	0.9	10.923	1.1	104.5
Belgium	(BFr)	32.3010	-0.054	870 - 150	32.3570	32.2570	32.286	0.6	32.236	0.8	31.881	1.3	105.1
Denmark	(DKr)	6.1515	-0.018	500 - 530	6.1740	6.1500	6.1522	-0.1	6.153	-0.1	6.1375	0.2	105.2
Finland	(FM)	4.8839	+0.0019	787 - 890	4.9065	4.8751	4.8818	0.5	4.8768	0.4	4.8544	0.4	81.9
France	(FFr)	5.4095	-0.0114	080 - 100	5.4295	5.4060	5.4078	0.4	5.408	0.2	5.377	0.6	106.0
Germany	(DM)	1.5691	-0.0037	688 - 694	1.5747	1.5685	1.5685	0.5	1.5661	0.8	1.544	1.6	107.2
Greece	(Dr)	242.645	-0.855	520 - 670	243.520	242.500	245.445	-13.8	250.095	-12.3	287.395	-18.4	68.4
Ireland	(I£)	1.5387	+0.0008	380 - 394	1.5394	1.5348	1.5382	-0.4	1.5382	-0.1	1.5395	-0.1	-
Italy	(L)	1635.25	-3.75	500 - 550	1638.80	1634.60	1639.5	-3.1	1647.35	-3.0	1680.75	-2.8	73.4
Luxembourg	(LFr)	32.3010	-0.054	870 - 150	32.3570	32.2570	32.286	0.6	32.236	0.8	31.881	1.3	105.1
Netherlands	(Fl)	1.7570	-0.0041	568 - 572	1.7621	1.7568	1.7562	0.6	1.7538	0.7	1.7318	1.5	108.8
Norway	(NKr)	6.8510	-0.018	495 - 525	6.8765	6.8487	6.8522	-0.2	6.8445	0.4	6.7905	0.9	96.2
Portugal	(Es)	161.250	-0.1	100 - 400	161.860	161.100	161.775	-3.9	162.85	-4.0	166	-2.9	95.1
Spain	(Pta)	131.995	-0.085	950 - 040	132.670	131.950	132.23	-2.1	132.68	-2.0	134.415	-1.8	80.9
Sweden	(SKr)	7.5610	+0.0228	563 - 656	7.5638	7.5136	7.5723	-1.8	7.5935	-1.7	7.671	-1.5	80.8
Switzerland	(SFr)	1.3266	-0.0039	260 - 270	1.3330	1.3249	1.324	2.3	1.3199	2.0	1.2905	2.7	105.4
UK	(£)	1.5622	-	619 - 625	1.5634	1.5583	1.5623	-0.1	1.5622	0.0	1.5625	0.0	88.7
Ecu	-	1.2142	+0.0027	137 - 147	1.2147	1.2112	1.214	0.2	1.2139	0.1	1.2192	-0.4	-
SDR†	-	1.46100	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9980	-	979 - 980	0.9980	0.9978	-	-	-	-	-	-	-
Brazil	(R)	0.8490	+0.007	480 - 500	0.8500	0.8470	-	-	-	-	-	-	-
Canada	(C$)	1.3886	+0.0008	885 - 870	1.3896	1.3865	1.387	-0.1	1.3888	0.2	1.3946	-0.6	82.3
Mexico	(New Peso)	3.4525	-0.002	515 - 535	3.4560	3.4510	3.4535	-0.3	3.4553	-0.3	3.4627	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.5
Pacific/Middle East/Africa													
Australia	(A$)	1.2901	-	897 - 905	1.2912	1.2850	1.2908	-0.7	1.2926	-0.8	1.3054	-1.2	91.8
Hong Kong	(HK$)	7.7402	+0.0004	397 - 404	7.7405	7.7395	7.7381	0.3	7.7389	0.2	7.7447	-0.1	-
India	(Rs)	31.3686	-0.0012	650 - 725	31.3725	31.3650	31.4386	-2.7	31.5838	-2.7	-	-	-
Japan	(Y)	100.260	-0.135	230 - 290	100.520	100.230	99.92	4.1	99.25	4.0	95.375	4.9	148.5
Malaysia	(M$)	2.5638	-0.0003	633 - 643	2.5643	2.5629	2.5608	1.4	2.5583	1.2	2.5345	-0.8	-
New Zealand	(NZ$)	1.5665	-0.0003	679 - 691	1.5694	1.5635	1.5664	-0.7	1.5719	-0.9	1.5903	-0.8	-
Philippines	(Peso)	24.1500	-	000 - 000	24.3000	23.9000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	-0.0001	503 - 508	3.7509	3.7501	3.7542	-1.1	3.7611	-1.1	3.7756	-0.7	-
Singapore	(S$)	1.4670	+0.0002	665 - 675	1.4680	1.4657	1.4655	1.2	1.462	1.4	1.4455	1.5	-
S Africa (Com.)	(R)	3.5658	-0.0007	648 - 668	3.5680	3.5649	3.5811	-5.1	3.6132	-5.3	3.7761	-5.9	-
S Africa (Fin.)	(R)	4.1150	-0.015	050 - 250	4.1300	4.1050	4.143	-8.2	4.1875	-7.5	4.425	-7.5	-
South Korea	(Won)	792.950	+0.4	900 - 000	793.300	792.500	795.45	-3.8	799.45	-3.3	817.95	-3.2	-
Taiwan	(T$)	26.4040	+0.0052	020 - 060	26.4160	26.4015	26.424	-0.9	26.459	-0.8	-	-	-
Thailand	(Bt)	25.1635	+0.0635	150 - 120	25.2125	25.0120	25.193	-1.4	25.2535	-1.9	25.6885	-2.1	-

†SDR rate for Dec 13. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 13. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

December 14	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4¾	5⅛	5¾	5⅞	6½	7.40	4.50	-
week ago	4⅝	5⅛	5⅝	5⅞	6⅝	7.40	4.50	-
France	5⅛	5⅜	5⅝	5⅞	6⅛	5.00	-	6.75
week ago	5⅛	5⅜	5⅝	5⅞	6⅛	5.00	-	6.75
Germany	5.03	5.43	5.46	5.65	5.93	6.00	4.50	4.85
week ago	5.05	5.45	5.53	5.58	5.88	6.00	4.50	4.85
Ireland	5¼	5¾	6⅛	6⅝	7¼	-	-	6.25
week ago	5¼	5¾	6⅛	6⅝	7¼	-	-	6.25
Italy	8½	9	9⅜	9⅝	10⅛	-	7.50	8.20
week ago	8¼	9	9⅛	9⅜	10	-	7.50	8.20
Netherlands	4.84	5.58	5.61	5.76	6.11	-	5.25	-
week ago	4.84	5.56	5.58	5.49	5.84	-	5.25	-
Switzerland	3⅝	4	4¼	4⅝	4⅝	6.625	3.50	-
week ago	3⅝	4	4¼	4⅝	4⅝	6.625	3.50	-
US	5¼	6⅛	6⅜	6⅞	7⅜	-	4.75	-
week ago	5⅝	6⅛	6⅜	6⅞	7⅝	-	4.75	-
Japan	2⅛	2⅛	2¼	2⅜	2½	-	1.75	-
week ago	2⅛	2⅛	2¼	2⅜	2½	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	6⅛	6½	7	7⅜	-	-	-
week ago	-	6⅛	6⅛	6⅝	7⅛	-	-	-
US Dollar CDs	-	5.81	6.16	6.71	7.49	-	-	-
week ago	-	5.81	6.13	6.60	7.26	-	-	-
SDR Linked Ds	-	4⅜	4⅝	5¼	5⅝	-	-	-
week ago	-	4⅜	4⅝	5¼	5⅝	-	-	-

ECU Linked Ds mid rates: 1 mth: 5⅜; 3 mths: 6⅛; 6 mths: 6⅜; 1 year: 6⅝. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster. Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 14	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES (MATIF)** Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.88	93.84	-0.07	93.90	93.70	26,961	60,924
Mar	93.07	93.28	+0.02	93.33	93.06	30,083	63,244
Jun	92.92	92.90	+0.04	93.02	92.72	22,181	40,117
Sep	92.71	92.75	+0.04	92.81	92.54	13,304	26,926

■ **THREE MONTH EURODOLLAR (LIFFE)*** $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.56	93.57	+0.09	93.59	93.56	27	2637
Mar	-	92.76	+0.14	-	-	0	1456
Jun	-	92.10	+0.12	-	-	0	363
Sep	-	91.83	+0.15	-	-	0	177

■ **THREE MONTH EUROMARK FUTURES (LIFFE)*** DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.40	94.45	+0.04	94.50	94.36	30958	120640
Mar	94.26	94.30	+0.03	94.34	94.21	68126	195116
Jun	93.91	93.99	+0.08	94.02	93.88	35163	142684
Sep	93.57	93.66	+0.08	93.68	93.55	14582	84775

■ **THREE MONTH EUROLIRA INT. RATE FUTURES (LIFFE)** L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	90.46	90.57	+0.23	90.57	90.38	3654	21454
Mar	89.60	89.77	+0.20	89.82	89.46	9898	31816
Jun	89.22	89.44	+0.22	89.48	89.20	4292	15694
Sep	88.96	89.20	+0.21	89.20	88.96	2614	23718

■ **THREE MONTH EURO SWISS FRANC FUTURES (LIFFE)** SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.68	95.69	-0.01	95.70	95.68	1178	11336
Mar	95.36	95.36	-	95.39	95.30	5543	16865
Jun	95.01	95.07	+0.02	95.07	95.00	1104	7777
Sep	94.79	94.83	+0.02	94.85	94.79	790	3772

■ **THREE MONTH ECU FUTURES (LIFFE)** Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.45	93.58	+0.03	93.58	93.43	826	7226
Mar	93.05	93.25	+0.12	93.25	93.01	1798	8587
Jun	92.72	92.90	+0.12	92.90	92.72	656	4410
Sep	92.34	92.54	+0.14	92.46	92.34	212	2669

* LIFFE futures traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 14		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.04	16.75	4.857	2.011	5061	5.438	21.20	499.2	408.6	23.40	4.108	1.982	4.298	3.096	310.3	2.549
Denmark	(DKr)	52.51	10	8.794	2.551	1.056	2658	2.856	11.14	262.2	214.6	12.29	2.157	1.041	2.254	1.626	163.0	1.338
France	(FFr)	59.72	11.37	10	2.901	1.201	3022	3.247	12.66	298.1	244.0	13.98	2.453	1.183	2.563	1.849	185.3	1.522
Germany	(DM)	20.59	3.920	3.448	1	0.414	1042	1.120	4.366	102.8	84.13	4.818	0.846	0.408	0.884	0.637	63.89	0.525
Ireland	(I£)	49.71	9.467	8.325	2.415	1	2516	2.703	10.54	248.2	203.2	11.64	2.042	0.985	2.134	1.539	154.3	1.267
Italy	(L)	1.976	0.376	0.331	0.096	0.040	100.	0.107	0.419	9.863	8.074	0.462	0.081	0.039	0.085	0.061	6.132	0.050
Netherlands	(Fl)	18.39	3.502	3.079	0.893	0.370	930.8	1	3.899	91.80	75.15	4.304	0.755	0.364	0.789	0.569	57.07	0.469
Norway	(NKr)	47.16	8.980	7.897	2.291	0.949	2387	2.564	10	235.4	192.7	11.04	1.937	0.935	2.024	1.460	146.4	1.202
Portugal	(Es)	20.03	3.815	3.355	0.973	0.403	1014	1.089	4.248	100.	81.86	4.686	0.823	0.397	0.860	0.620	62.17	0.511
Spain	(Pta)	24.47	4.660	4.098	1.189	0.492	1239	1.331	5.189	122.2	100.	5.727	1.005	0.485	1.050	0.758	75.95	0.624
Sweden	(SKr)	42.73	8.136	7.155	2.075	0.859	2163	2.323	9.060	213.3	174.6	10	1.755	0.847	1.834	1.323	132.6	1.089
Switzerland	(SFr)	24.34	4.635	4.076	1.182	0.490	1232	1.324	5.162	121.5	99.47	5.697	1	0.482	1.045	0.753	75.54	0.620
UK	(£)	50.46	9.609	8.450	2.451	1.015	2554	2.744	10.70	251.9	206.2	11.81	2.073	1	2.166	1.562	156.6	1.286
Canada	(C$)	23.30	4.436	3.901	1.132	0.469	1179	1.267	4.940	116.3	95.20	5.452	0.957	0.462	1	0.721	72.30	0.594
US	($)	32.30	6.152	5.410	1.569	0.650	1635	1.757	6.850	161.3	132.0	7.561	1.327	0.640	1.387	1	100.3	0.823
Japan	(Y)	32.22	6.136	5.396	1.565	0.648	1631	1.752	6.833	160.9	131.7	7.542	1.324	0.639	1.383	0.997	100.	0.821
Ecu		39.24	7.472	6.571	1.906	0.789	1986	2.134	8.320	195.9	160.3	9.184	1.612	0.778	1.684	1.215	121.8	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES (IMM)** DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6355	0.6368	-0.0001	0.6369	0.6352	9,167	54,859
Mar	0.6376	0.6378	-	0.6382	0.6360	26,716	58,701
Jun	0.6395	0.6395	-0.0011	0.6395	0.6395	61	1,673

■ **JAPANESE YEN FUTURES (IMM)** Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.9965	0.9974	-0.0018	0.9974	0.9956	9,405	38,658
Mar	1.0077	1.0067	-0.0017	1.0077	1.0050	25,007	63,107
Jun	-	1.0217	-	-	-	215	2,248

■ **SWISS FRANC FUTURES (IMM)** SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7516	0.7530	-0.0007	0.7530	0.7515	5,020	34,585
Mar	0.7564	0.7565	-0.0006	0.7568	0.7546	16,415	31,355
Jun	0.7620	0.7617	-0.0005	0.7620	0.7610	68	468

■ **STERLING FUTURES (IMM)** £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.5584	1.5604	-	1.5610	1.5584	3,104	30,623
Mar	1.5594	1.5604	+0.0004	1.5630	1.5582	8,269	42,191
Jun	-	1.5600	-	-	-	1	159

UK INTEREST RATES

LONDON MONEY RATES

Dec 14	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6⅛ - 4	6$\frac{3}{16}$ - 6	6$\frac{3}{16}$ - 6	6½ - 6$\frac{5}{16}$	7$\frac{1}{16}$ - 6⅞	7¾ - 7$\frac{11}{16}$
Sterling CDs	-	-	6$\frac{1}{16}$ - 6	6$\frac{7}{16}$ - 6$\frac{5}{16}$	6¾ - 6⅝	7¾ - 7⅝
Treasury Bills	-	-	5$\frac{15}{16}$ - 5⅞	6$\frac{1}{16}$ - 6	-	-
Bank Bills	-	-	5$\frac{31}{32}$ - 5$\frac{29}{32}$	6$\frac{5}{16}$ - 6$\frac{3}{16}$	6¾ - 6½	-
Local authority deps.	6$\frac{1}{16}$ - 5$\frac{15}{16}$	5⅞ - 5¾	6⅛ - 6	6$\frac{7}{16}$ - 6$\frac{5}{16}$	7 - 6⅞	7$\frac{13}{16}$ - 7$\frac{11}{16}$
Discount Market deps	5¼ - 4½	5$\frac{13}{16}$ - 5$\frac{11}{16}$	-	-	-	-

UK clearing bank base lending rate 6¼ per cent from December 7, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3¾	3¾	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash ½pc.
Ave. tender rate of discount 5.9058pc. ECGD fixed rate Stlg. Export Finance. Make up day Nov 30, 1994. Agreed rate for period Dec 26, 1994 to Jan 24, 1995, Schemes II & III 7.38pc. Reference rate for period Nov 1, 1994 to Nov 30, 1994, Schemes IV & V 6.107pc. Finance House Base Rate 6½pc from Dec 1, 1994

■ **THREE MONTH STERLING FUTURES (LIFFE)** £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.45	93.51	+0.03	93.51	93.45	11307	99162
Mar	92.48	92.55	+0.05	92.59	92.44	27577	96152
Jun	91.84	91.91	+0.05	91.96	91.82	9058	64050
Sep	91.41	91.47	+0.04	91.49	91.39	4407	62965

Traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS (LIFFE)** £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9350	0.05	0.01	0.03	0.04	0.96	1.62
9375	0	0	0.01	0.24	1.20	1.85
9400	0	0	0.01	0.49	1.45	2.10

Est. vol. total, Calls 5986 Puts 5453. Previous day's open int., Calls 339137 Puts 243927

EMS EUROPEAN CURRENCY UNIT RATES

Dec 14	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.19672	2.13981	-0.00071	-2.59	7.07	-
Belgium	40.2123	39.2960	-0.017	-2.28	6.73	17
Ireland	0.808628	0.791055	+0.000738	-2.17	6.61	15
Germany	1.94964	1.91043	-0.00114	-2.01	6.44	-
France	6.53883	6.58720	+0.00104	0.74	3.53	-6
Denmark	7.43679	7.49291	-0.0037	0.75	3.52	-5
Portugal	192.854	196.037	+0.168	1.65	2.60	-11
Spain	154.250	160.877	+0.469	4.30	0.00	-30
NON ERM MEMBERS						
Greece	264.513	295.221	-0.176	11.61	-6.55	-
Italy	1793.19	1990.22	-1.41	10.99	-6.03	-
UK	0.786749	0.778784	+0.001124	-1.01	5.36	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
1.500	5.84	5.90	6.22	-	0.03	0.29
1.525	3.34	3.66	4.20	-	0.27	0.74
1.550	0.98	1.89	2.54	0.04	0.91	1.56
1.575	-	0.74	1.41	1.54	2.22	2.81
1.600	-	0.21	0.68	3.96	4.11	4.65
1.625	-	0.02	0.28	6.45	6.40	6.62

Previous day's vol., Calls 4,520 Puts 11,367 . Prev. day's open int., Calls 406,996 Puts 372,880

■ **THREE MONTH EURODOLLAR (IMM)** $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	93.57	93.58	-	93.59	93.56	59,507	307,493
Mar	92.59	92.62	+0.01	92.63	92.58	210,416	480,982
Jun	91.96	91.95	-	91.98	91.92	184,156	358,480

■ **US TREASURY BILL FUTURES (IMM)** $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	93.13	93.21	-0.02	93.24	93.13	3,731	18,063
Jun	92.56	92.55	-0.04	92.58	92.55	465	3,910
Sep	-	92.29	-	-	92.29	12	958

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS (LIFFE)** DM1m points of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
9425	0.21	0.15	0.19	0.23	0.01	0.10	0.14	0.18
9450	0.03	0.04	0.08	0.10	0.08	0.24	0.28	0.30
9475	0	0.01	0.03	0.04	0.30	0.46	0.48	0.49

Est. vol. total, Calls 9275 Puts 15058. Previous day's open int., Calls 232083 Puts 228098

■ **EURO SWISS FRANC OPTIONS (LIFFE)** SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9550	0.20	0.13	0.12	0.01	0.25	0.55
9575	0.03	0.06	0.06	0.09	0.43	0.74
9600	0.01	0.03	0.03	0.32	0.65	0.96

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 2615 Puts 1815

BASE LENDING RATES

	%		%		%
Adam & Company	6.25	Duncan Lawrie	6.25	*Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	8
Allied Trust Bank	6.25	Exeter Bank Limited	7.25	Royal Bk of Scotland	6.25
AIB Bank	6.25	Financial & Gen Bank	6.5	●Smith & Williamson Secs.	6.25
●Henry Ansbacher	6.25	●Robert Fleming & Co	6.25	TSB	6.25
Bank of Baroda	6.25	Girobank	6.25	●United Bk of Kuwait	6.25
Banco Bilbao Vizcaya	6.25	●Guinness Mahon	6.25	Unity Trust Bank Plc	6.25
Bank of Cyprus	5.75	Habib Bank AG Zurich	6.25	Western Trust	5.75
Bank of Ireland	6.25	●Hambros Bank	6.25	Whiteaway Laidlaw	6.25
Bank of India	6.25	Heritable & Gen Inv Bk.	6.25	Yorkshire Bank	6.25
Bank of Scotland	6.25	●Hill Samuel	6.25		
Barclays Bank	6.25	C. Hoare & Co	6.25	● Members of London Investment Banking Association	
Brit Bk of Mid East	6.25	Hongkong & Shanghai	6.25	* In administration	
●Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.25		
CL Bank Nederland	6.25	●Leopold Joseph & Sons	6.25		
Citibank NA	6.25	Lloyds Bank	6.25		
Clydesdale Bank	6.25	Meghraj Bank Ltd	6.25		
The Co-operative Bank	6.25	Midland Bank	6.25		
Coutts & Co	6.25	*Mount Banking	6		
Credit Lyonnais	6.25	NatWestminster	6.25		
Cyprus Popular Bank	6.25	●Rea Brothers	6.25		

شكرا من الاهل

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

INDICES

	Dec 14	Dec 13	Dec 12	1994 High		1994 Low	
Japan							
Nikkei 225 (16/5/49)	18931.48	18875.48	18975.10	21552.81	13/6	17369.74	4/1
Nikkei 300 (1/10/82)	276.78	278.49	277.29	311.71	13/6	268.22	4/1
Topix (4/1/68)	1498.04	1497.67	1508.78	1712.73	13/6	1445.97	4/1
2nd Section (4/1/68)	2051.42	2057.87	2075.18	2542.65	6/7	1673.32	4/1
Malaysia							
KLSE Comp.(4/4/86)	937.15	900.41	895.77	1314.46	5/1	895.77	12/12

** Sat Dec 10: Taiwan Weighted Price 6722.51; Korea Comp Ex 1033.27. Base values of all indices are 100 except: Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Dec 14 – 2040.94 +21.81

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	1930.0	1943.0	+17.0	1946.0	1929.0	19,600	29,584
Jan	1937.5	1951.5	+17.0	1951.5	1937.5	3,808	1,144
Feb	1947.0	1961.5	+17.5	1959.5	1947.0	1,252	10,120

Open interest figures for previous day.

US INDICES

Dow Jones	Dec 13	Dec 12	Dec 9	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3715.34	3718.37	3691.11	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	94.25	94.07	94.28	105.61 (21/1)	93.61 (28/11)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	1371.89	1380.07	1380.97	1862.29 (2/2)	1371.89 (13/12)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	181.72	181.85	179.34	227.06 (3/1)	173.94 (22/11)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3748.32 (3734.52) Low 3690.78 (3667.90) (Theoretical♦) Day's high 3728.12 (3718.37) Low 3710.28 (3682.37) (Actual♦)

Standard and Poors	Dec 13	Dec 12	Dec 9	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	450.15	446.47	446.96	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials♥	533.71	533.45	530.28	563.19 (28/10)	510.05 (21/4)	563.18 (28/10/94)	3.62 (21/6/32)
Financial	41.16	40.74	40.54	48.94 (14/8)	39.87 (22/11)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	245.72	245.26	244.17	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	420.23	420.80	420.66	487.89 (2/2)	420.23 (13/12)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	719.49	719.12	719.05	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Dec 9	Dec 2	Nov 25	Year ago
Dow Jones Ind. Div. Yield	2.88	2.84	2.87	2.68
	Dec 7	Nov 30	Nov 23	Year ago
S & P Ind. Div. yield	2.48	2.46	2.48	2.40
S & P Ind. P/E ratio	18.29	18.42	18.29	27.14

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	-	450.90	-	-	-	28,456	117,092
Mar	454.00	454.45	+0.30	455.70	453.90	91,631	162,390
Jun	-	458.50	-	-	-	350	6,524

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
RJR Nabisco	9,061,500	5⅝	—
Vodafone	8,492,700	30⅝	—
Ford Motor	2,899,500	26⅝	+⅛
Gen Motors	2,641,700	37½	+⅜
Gen Elec	2,618,300	48	+⅛
Wal-Mart	2,613,300	22⅝	+⅛
Telefonos	2,589,100	51⅞	–⅞
Chrysler	2,536,700	46¼	—
Merck	2,436,200	37⅝	—
Hanson	2,382,000	17⅝	–⅛

■ TRADING ACTIVITY

● Volume (million)

	Dec 13	Dec 12	Dec 9
New York SE	307.103	285.745	337.791
Amex	19.422	12.178	16.707
NASDAQ	237.477	291.831	308.529
NYSE			
Issues Traded	2,857	2,820	2,913
Rises	1,247	1,117	937
Falls	1,016	1,110	1,293
Unchanged	694	693	683
New Highs	11	4	5
New Lows	178	217	286

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Wednesday, December 14, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
NKK Corp	8.2m	264	-1	Ito Yokado	3.1m	5160	-30
Nippon Steel	5.5m	357	+8	Nissan Motor	2.6m	805	+2
Kawasaki Steel	3.5m	397	+4	Sumitomo Metal	2.5m	308	+1
Odakyu Elec	3.6m	707	-	Fujitsu	2.1m	973	+5
Mitsubishi Heavy	3.1m	714	-1	Kobe Steel	1.8m	303	+3

4 pm close December 14

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
17⅞	11¾	AAR	0.48	3.8	22	215	12¾	12⅝	12¾	+⅛
18⅛	12⅝	A L Labs A	0.18	1.0	40	288	17⅞	17⅜	17¾	+⅜
79⅛	57⅝	AMP	1.88	2.3	22	1948	72⅛	70½	72⅛	+1⅝
72¾	48⅛	AMR			106	6396	50¾	48⅞	50¾	+1¾
5	3⅛	ARX			12	95	3⅞	3¾	3¾	
58⅞	38⅝	ASA	2.00	4.4	30	1079	45⅞	45	45½	+⅝
33	25⅞	AbbtL	0.76	2.4	17	8082	32¼	31½	32¼	+⅝
15¾	11⅞	Abitibi Pr	0.50	3.7	12	21	13½	13⅜	13½	
23⅝	17¾	ABM Ind	0.52	2.3	14	80	22⅝	21⅞	22⅝	+¾
18	11⅛	Acptocsin			9	156	13⅝	13⅛	13⅛	-½
31	20¾	ACE Ltd	0.44	2.0	21	1538	22⅛	21¾	21⅞	-½
12½	9	ACM Gvt In x	1.09	11.5	8	582	9½	9⅜	9½	+¼
10⅛	6⅞	ACM GvOpp x	0.80	11.2		83	7⅛	7	7⅛	
10⅝	6¾	ACM Gvt Sp x	0.96	13.2		385	7⅜	7¼	7¼	
12	7⅞	ACM Gvt Se x	1.08	13.1		1087	8½	8⅜	8⅜	-⅛
11¾	7⅞	ACM Man x	1.08	12.9		213	8½	8⅜	8⅜	
9¼	8	ACM Mangd x	0.72	8.6		727	8½	8⅜	8⅜	
15½	8¼	AcmeCV	0.44	4.0	22	63	10⅞	10¾	10⅞	
13⅞	6½	Acme Elect			13	210	13¼	13¼	13¼	
30	23	Acordia	0.60	2.0	15	16	u30⅛	30	30⅛	+⅛
13¾	5⅞	Actava	0.35	3.9	2	502	9¼	8½	9¼	+⅝
18⅞	11¼	Acuson			25	4067	15⅜	15	15⅜	+½
18⅞	15½	Adams Expr	0.68	4.4	0	166	15⅝	d15½	15½	-⅛
64	46½	Ad Micro	3.00	5.9		494	61½	60	61	+½
31¾	16¾	AdvMic	3.00	12.8	7	8801	23⅞	22⅝	23⅛	+⅝
6⅞	5	Advest Grp	0.16	3.1	15	13	5⅛	d5	5⅛	
20	15	Advo Inc	0.10	0.7	14	338	15⅜	15¼	15⅜	
64	49⅞	Aegon ADR	1.47	2.3	12	10	62⅞	62⅝	62⅞	+⅛
65¼	42¼	AetnaL	2.76	6.0	6	2101	45⅞	45⅛	45⅞	+¼
36⅛	25¼	Aflac	0.46	1.4	12	835	33⅞	33¼	33¼	-⅛
22¾	15¾	Ahmann	0.88	6.5	9	2296	16⅞	16⅛	16⅛	-⅛
4	1⅜	Aileen Inc			1	242	1⅜	d1¼	1⅜	-⅛

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- B -

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- C -

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- D -

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4 pm close December 14

NYSE COMPOSITE PRICES

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close December 14

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
ABS Inds x	0.20	13	65	12¾	12	12	-¼
ACC Corp	0.12	11	650	14½	14	14⅛	-⅛
Acclaim E		13	6065	14⅛	13½	13¾	+⅞
Acme Mills		5	84	16¼	15½	15½	-¾
Acxiom Cp		32	243	28½	27½	28	-½
Adaptech		16	3714	21⅞	21⅜	21⅞	+¼
ADC Tele		29	728	41¼	40	40⅞	+⅜
Addington		5	404	9	d8½	9	
Adia Serv	0.16	16	415	35¼	35	35¼	
Adobe Sys	0.20	28	6312	32¾	32	32¼	+½
Advance C		10	490	12¾	12¼	12¾	+¼
Adv Logic		141	15	4¼	4¼	4¼	
Adv Polym		6	181	4⅝	4⅜	4⁷⁄₁₆	
AdvTchLab		24	1244	19	17¾	17¾	-1
Advanta	0.27	10	1629	26¼	26	26½	-¼
Affymax		13	172	16¼	15¾	16	+¼
AgnicoEa	0.10	32	825	11⅛	10¾	10¹⁵⁄₁₆	
AirExpr	0.16	14	254	25¾	25¼	25¾	+¼
Akzo ADR	1.51	14	304	56¼	54½	56	+⅞
AldBld	0.68	13	1177	22	d21½	21¾	-⅛
Allegh &W		11	4	10½	10½	10½	-¼
Allen Org	0.52	12	16	35¾	35	35¼	+¼
Allian Ph		3	633	6⅜	5⅞	6⅜	+⅜
AlldCapll x	1.00	12	163	14½	13¾	14¼	-¼
Alld Cap x	0.80	11	80	12¾	d12½	12⅝	+⅛
Alpha C	0.32	11	12	2½	2	2	
Alta Gold	0.05	62	760	1¾	1¼	1¼	+⅜

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AMEX COMPOSITE PRICES

4 pm close December 14

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AMERICA

Inflation indications leave equities higher

Wall Street

US shares climbed steadily yesterday morning as relatively mild economic statistics encouraged investors that the Federal Reserve would not lift interest rates next week, *writes Lisa Bransten in New York.*

By 1 pm, the Dow Jones Industrial Average was up 30.61 at 3,745.95. The more broadly based Standard & Poor's 500 gained 4.25 at 454.40, the American Stock Exchange composite rose 1.69 to 421.92 and the Nasdaq composite put on 4.25 at 723.74. NYSE volume came to 204m shares.

Inflation has yet to seep into final goods prices, according to figures released by the Labor Department showing that the consumer price index rose 0.3 per cent in November, putting inflation for the year at 2.7 per cent.

The core CPI, excluding volatile food and energy prices, rose only 0.2 per cent, less than economists had predicted.

Although the Fed has focused on rising industrial production and intermediate prices in determining its monetary policy, the low CPI figures led some investors to believe that there would be no interest rate increase at the December 20 meeting of the Fed's open market committee meeting.

In recent weeks the market has been skittish as investors worried that more tightening by the Fed would dampen earnings growth.

Also reassuring to the market was the fact that there were no surprises in yesterday's capacity utilisation or industrial production figures. Capacity utilisation – the percentage of capital being used in the economy for the production of goods – grew to 84.7 per cent, its highest level in more than five years.

Although utilisation figures of 82 to 85 per cent are generally considered signals of future inflation, the data did not rattle the market because it was well within the range of expectations.

Total production grew 0.5 per cent in November, matching October's figure, which was revised downward.

Shares in cyclical companies got a boost as fears were eased of another interest rate increase, with the Morgan Stanley index of cyclical stocks gaining 1.4 per cent. Dow Chemical gained $2⅝ at $66¼, Caterpillar was up $⅝ at $51⅞, Motorola rose $⅝ to $55⅞ and International Paper climbed $⅝ to $72⅛.

Sprint gained $1¼ at $31⅝ after the US telecommunications company announced that it would form a long distance venture with Telmex, the Mexican telephone monopoly.

Rhône-Poulenc Rorer, the US pharmaceutical group which is majority owned by French Rhône-Poulenc, added to Tuesday's slide, falling $1 at $37. The shares fell 8 per cent on Tuesday after US regulators recommended against giving the company early approval for a new cancer drug.

Other pharmaceutical stocks posted gains. Eli Lilly firmed $⅝ to $61⅞, Bristol-Myers Squibb put on $⅛ at $57⅞, Pfizer gained $1¼ at $76 and Merck improved $¼ to $38. Upjohn lost $⅛ at $31.

Canada

Toronto was firm at midday as US economic data helped to ease inflation fears. The TSE-300 composite index rose 13.90 to 4,058.31 in volume of 28.1m shares.

All but two of Toronto's 14 sub-indices were higher, led by a solid rise in precious metals shares. The gold and silver group climbed 1.3 per cent as gold prices continued higher.

Placer Dome rose C$⅛ to C$28⅛ in hectic trading, while American Barrick Resources added C$¼ at C$30⅝. Pegasus Gold gained C$⅝ at C$16⅝.

BCE continued to soften after a federal government decision to delay a local telephone rate rise. The stock lost C$⅛ at C$44⅝.

Nova shares eased C$⅛ to C$13 in active trade after a Nesbitt Burns analyst downgraded the stock.

Mexico

Equities recovered from Tuesday's sharp fall, which brought the market to its lowest close for four months, with an opening gain of 1 per cent. The rise was initiated by Tuesday's late news that an accord had been signed between Sprint, of the US, and Telmex on the provision of long-distance telephone services between the two countries.

By midsession the rise had been trimmed, with the IPC index up 11.38 or 0.5 per cent at 2,419.37. Telmex "L" shares surged 2.5 per cent at the opening, before consolidating to show a rise of 0.12 pesos at 8.98 pesos in heavy volume.

SOUTH AFRICA

Gold shares rallied from the day's lows in afternoon trade to end mildly softer after bullion rose to $379 an ounce, but other stocks remained depressed by a lack of buyers.

The overall index relinquished 22.5 at 5,637.4, industrials fell 43.5 to 6,753.9 and golds slipped 7.3 to 1,891.9.

De Beers put on 25 cents at R91, Anglos dipped 50 cents to R223 and Minorco added R1 at R96. Engen, the petrochemicals company, gained 50 cents or 1.4 per cent at R36.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: Dec. 9 1994	Dollar terms: % Change over week	Dollar terms: % Change on Dec '93	Local currency terms: Dec. 9 1994	Local currency terms: % Change over week	Local currency terms: % Change on Dec '93
Latin America	(207)	703.83	+0.3	+8.2			
Argentina	(24)	818.45	-2.7	-17.7	501,314.81	-2.7	-17.8
Brazil	(57)	413.55	+6.1	+77.7	1,307,590,435	+4.5	+1,186.7
Chile	(25)	810.52	+1.5	+46.9	1,299.90	+1.7	+36.4
Colombia[1]	(11)	782.44	-0.8	+18.3	1,122.86	-0.6	+21.1
Mexico	(67)	876.91	-2.9	-12.9	1,305.43	-2.5	-3.3
Peru[2]	(11)	188.95	+0.6	+56.2	246.74	-0.6	+55.2
Venezuela[3]	(12)	460.77	+2.9	-22.2	1,799.35	+2.9	+26.6
Asia	(558)	236.35	-4.2	-18.8			
China[4]	(18)	78.36	-5.6	-47.5	84.15	-5.7	-48.7
South Korea[5]	(156)	138.85	-2.3	+17.5	144.41	-2.4	+15.1
Philippines	(19)	283.05	+1.5	-16.9	328.17	+0.6	-26.1
Taiwan, China[6]	(90)	153.99	+3.7	+13.9	152.42	+3.8	+13.9
India[7]	(76)	124.40	-3.1	+8.8	138.63	-3.2	+7.6
Indonesia[8]	(38)	93.85	-4.7	-24.7	111.59	-4.3	-21.6
Malaysia	(104)	249.58	-6.3	-26.4	236.15	-6.1	-29.9
Pakistan[9]	(15)	378.07	-2.1	-2.5	527.61	-1.9	-0.1
Sri Lanka[10]	(5)	177.64	-5.1	+0.2	190.25	-4.9	-0.4
Thailand	(55)	364.04	-5.1	-23.8	362.80	-4.9	-24.9
Euro/Mid East	(125)	123.54	-1.4	-27.0			
Greece	(25)	222.68	+1.8	-2.2	366.99	+1.8	-4.5
Hungary[11]	(5)	159.88	-2.9	-4.1	215.19	-2.0	+6.6
Jordan	(13)	153.09	-0.5	-7.5	226.24	-0.5	-5.5
Poland[12]	(12)	442.68	-10.8	-45.9	677.75	-10.5	-38.6
Portugal	(25)	124.10	-0.1	+9.1	137.59	-0.1	-0.4
Turkey[13]	(40)	132.59	-2.5	-37.6	2,303.77	-1.8	+58.4
Zimbabwe[14]	(5)	251.42	-4.6	+24.4	309.38	-5.1	+44.8
Composite	(890)	330.03	-1.8	-7.2			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1993; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 5 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Aug 4 1989; (14)July 2 1993.

Equity trading in Manila has been difficult over the past few weeks, with the composite index testing, and holding, the 2,500 support level, writes John Pitt.
Asia Equity notes that volumes have been in decline since the end of November and that, in common with the region, the market's direction has been determined by events in the US, particularly in relation to interest rate moves.
Looking ahead, May 1995 sees the first parliamentary elections for three years. Asia Equity has a positive view on the outcome of the race for the senate, which should consolidate the presidency of Mr Fidel Ramos, and expedite the passage of economic reform measures through congress.
With regard to Latin America, James Capel has turned optimistic on Argentina, one of the worst performing markets in that region during 1994 in dollar terms. Mr Nigel Rendell argues that the downward spiral has come to an end – the Merval index is currently some 25 to 30 per cent below its 1994 peak – and stocks look cheap on a 1995 earnings forecast of 12 times, in relation to Mexico (13.7 times) and Brazil (14.3 times). "However, rising US interest rates, concerns about capital inflows and an element of political uncertainty are likely to limit any gains in the Merval index," adds Mr Rendell. In conclusion, he still recommends underweighting Argentina within a Latin American portfolio, "believing that other markets, in particular Mexico, Brazil, Chile and Peru, provide a better upside potential, at least for the time being".

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUE DEC 13 1994: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MON DEC 12 1994: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (68)	169.87	0.7	158.36	105.90	136.45	143.18	0.5	4.02	168.71	157.09	104.62	135.50	142.43	189.15	157.28	158.92
Austria (16)	175.81	0.1	166.84	111.57	143.76	143.68	0.1	1.13	175.64	166.50	110.98	143.62	143.58	199.88	157.46	182.63
Belgium (35)	164.76	-0.3	156.36	104.57	134.74	131.45	-0.3	4.20	165.33	156.73	104.36	135.19	131.82	177.04	159.84	160.36
Brazil (28)	176.94	0.0	167.91	112.28	144.68	274.23	-0.2	0.75	176.92	167.72	111.70	144.67	274.70			
Canada (103)	125.90	-0.1	119.48	79.90	102.94	126.35	0.0	2.73	125.99	119.44	79.54	103.02	126.37	145.31	120.04	134.93
Denmark (33)	236.74	-0.9	224.66	150.25	193.57	186.95	-0.7	1.50	238.82	226.40	150.78	195.38	188.27	275.78	224.04	228.84
Finland (24)	174.36	-0.1	165.47	110.65	142.57	176.65	-0.1	0.78	174.50	165.48	110.20	142.73	176.79	201.41	118.65	121.57
France (102)	163.48	-0.4	155.14	103.74	133.67	136.00	-0.2	3.08	164.13	155.59	103.62	134.21	136.24	186.48	157.61	171.66
Germany (58)	135.39	-0.5	128.49	85.92	110.71	110.71	-0.5	1.87	136.09	129.01	85.92	111.28	111.28	150.40	128.37	138.03
Hong Kong (56)	311.89	1.9	295.99	197.93	255.03	308.92	1.9	3.99	305.90	290.07	193.18	250.21	304.04	506.58	305.99	418.92
Ireland (14)	195.67	-1.1	185.69	124.18	160.00	179.27	-1.0	3.25	197.76	187.49	124.86	161.72	181.00	217.66	177.88	180.48
Italy (59)	68.58	2.1	65.18	43.59	56.18	84.67	2.4	1.88	67.25	63.75	42.45	54.99	82.10	97.76	65.87	67.24
Japan (468)	150.19	-0.9	142.53	95.31	122.81	95.31	-0.4	0.81	151.55	143.66	95.67	123.92	95.67	170.10	127.16	135.57
Malaysia (97)	444.01	1.5	421.37	281.78	363.07	438.47	1.5	1.82	437.38	414.64	276.14	357.66	431.78	521.65	430.71	539.09
Mexico (18)	1968.98	-2.4	1868.54	1249.51	1609.97	7486.69	-2.2	1.37	2016.75	1911.80	1273.21	1649.04	7606.18	2647.08	1968.98	2225.36
Netherland (19)	209.19	0.6	198.52	132.75	171.05	168.14	0.6	3.44	207.87	197.06	131.24	169.98	167.07	223.20	191.28	194.42
New Zealand (14)	70.76	1.7	67.15	44.91	57.86	58.86	1.5	4.96	69.56	65.94	43.91	56.88	57.99	77.89	62.05	64.85
Norway (23)	199.73	-0.5	189.59	126.71	163.25	185.28	-0.3	1.78	200.64	189.95	126.51	163.86	185.84	211.74	168.11	172.00
Singapore (44)	343.85	-0.5	326.31	218.21	281.16	232.42	-0.5	1.84	345.50	327.53	218.13	282.52	233.48	401.38	294.66	342.21
South Africa (59)	318.10	0.3	302.18	202.50	260.82	288.05	0.0	2.28	318.25	301.67	200.91	260.21	287.98	342.00	266.55	228.80
Spain (38)	138.41	-0.4	131.35	87.83	113.17	138.46	-0.1	4.12	138.91	131.68	87.70	113.59	138.63	155.79	132.91	137.26
Sweden (36)	227.90	0.9	216.26	144.63	186.35	254.32	1.0	1.57	225.80	214.05	142.55	184.63	251.72	242.61	185.22	186.59
Switzerland (47)	166.38	0.0	158.30	105.61	136.05	126.54	-0.1	1.58	166.44	158.20	105.03	136.10	126.58	190.09	150.96	[illegible]
Thailand (46)	150.26	2.1	142.62	95.37	122.89	146.40	2.1	2.51	147.25	139.59	92.96	120.41	143.45			
United Kingdom (204)	187.07	0.0	177.53	118.72	152.97	177.53	0.1	4.35	187.13	177.39	118.14	153.01	177.39	214.96	181.11	198.48
USA (514)	184.23	0.2	174.84	116.92	150.64	184.23	0.2	2.89	183.88	174.31	116.09	150.35	183.88	196.04	176.95	186.59
Americas (563)	172.16	0.1	163.38	109.26	140.77	143.21	0.1	2.77	171.95	163.00	108.56	140.60	143.03			
Europe (706)	163.04	0.0	154.72	103.46	133.31	145.75	0.1	3.20	163.04	154.55	102.93	133.31	145.60	178.55	159.60	164.67
Nordic (116)	216.38	0.3	205.34	137.32	176.93	208.40	0.4	1.43	215.79	204.56	136.23	176.44	205.83	233.91	180.05	182.12
Pacific Basin (793)	157.11	-0.6	149.10	99.71	128.47	103.78	-0.1	1.20	158.02	149.80	99.76	129.21	103.94	176.80	141.04	147.18
Euro-Pacific (1501)	159.50	-0.3	151.36	101.22	130.42	120.78	0.0	2.06	160.02	151.69	101.02	130.85	120.81	175.14	152.54	154.31
North America (617)	180.61	0.2	171.40	114.62	147.68	180.25	0.2	2.87	180.29	170.91	113.82	147.42	179.93	192.73	175.87	186.19
Europe Ex. UK (502)	146.47	0.0	139.00	92.95	119.77	128.05	0.1	2.53	146.45	138.83	92.46	119.75	127.90	168.12	142.17	144.40
Pacific Ex. Japan (325)	226.81	1.2	215.34	144.00	185.55	198.98	1.2	3.24	224.17	212.51	141.53	183.21	196.65	256.21	224.17	258.06
World Ex. US (1709)	161.41	-0.3	153.18	102.43	131.98	124.38	-0.1	2.06	161.94	153.52	102.24	132.41	124.45	176.85	154.31	156.05
World Ex. UK (2019)	166.10	-0.2	157.63	105.41	135.82	139.21	0.0	2.18	166.37	157.71	105.03	136.03	139.18	178.50	161.50	163.35
World Ex. Japan (1755)	179.24	0.2	170.10	113.76	146.56	170.68	0.2	3.03	178.85	169.54	112.90	146.23	170.23	190.50	175.34	184.02
The World Index (2223)	167.96	-0.1	159.40	106.59	137.34	142.71	0.0	2.38	168.21	159.45	106.19	137.54	142.66	180.80	164.59	166.28

Please note: Amendments to indices 12/12/94 applied to Ireland. Latest prices were unavailable for this edition.

EUROPE

Paris bourse majors on RPR setback

Weaker than expected US core rate CPI and capacity utilisation data gave bourses an afternoon lift, *writes Our Markets Staff.*

PARIS saw the CAC-40 index add 12.91 at 1,930.02, but attention was fixed on Rhône-Poulenc, whose US pharmaceuticals unit, Rhône-Poulenc Rorer, suffered a major setback on Tuesday night when the US FDA advisory committee rejected its Taxotere drug for the treatment of breast and lung cancer.

In Paris, RPR dropped FFr19.70 or 9 per cent to FFr197.50, after a session's low of FFr190.60, while Rhône-Poulenc, after falling to FFr120.90, steadied and closed with a loss of 60 centimes at FFr124 in heavy volume.

The effect on RPR's earnings would be considerable, commented Ms Virginia Pascoe, European pharmaceuticals analyst at UBS in London, given that the company had been pinning its hopes on Taxotere for entry into the global market for cancer treatment. This setback could mean that a US launch would be delayed until the fourth quarter of 1997, following a reapplication to the US authorities.

Euro Disney, up 25 centimes at FFr9.60, was supported by news that it was to cut ticket prices for entry to the theme park in an effort to boost attendance.

AMSTERDAM set a slide in the aircraft manufacturer Fokker against a rise in KPN, the heavily capitalised telecommunications group. The AEX index closed 0.38 higher at 407.19.

Fokker, in which Daimler, of Germany, has a majority stake, sank to a year's low of Fl 12.10 during the day, before picking up slightly to close off Fl 2.20 or 15 per cent at Fl 12.30. This slide followed a further downgrading by the group of its 1994 earnings forecast, and brings the year's share price drop to nearly 51 per cent since it hit a peak of Fl 25 in late January.

KPN, in contrast, rose 80 cents to Fl 55.60 on news late on Tuesday which confirmed that its Unisource telecommunications joint venture was to link up AT&T, of the US, with plans to invest up to $1bn building up a European telecoms network.

FRANKFURT moved from an official Dax close of 2,024.77 to an Ibis indicated 2,040.94 by the end of the day, up 21.81 over 24 hours. Turnover rose from DM4.8bn to DM5bn.

Commerzbank, scheduled to produce forecasts for the bourse in 1995, put on DM6 at DM326.80 as Schröder, Münchmeyer & Hengst said that an expected recovery in bank stocks would help the Dax hit the top of a 2,000 to 2,400 range by mid-1995.

But cyclicals, not favoured by SMH, won the day. The big three chemicals moved up as a group, Hoechst leading with a rise of DM6.40 to DM316.60. Elsewhere there was selective buying in Deutsche Babcock, up DM4.50 at DM202.50, and Daimler, DM20.20 better at DM740.50 after it said that its 1994 operating profits would at least double the DM926m of the first six months.

MILAN closed under further pressure as growing political tensions and end-account position squaring pushed prices lower. The Comit index rose 1.27 to 582.91 but the real-time Mibtel index fell another 157 or 1.7 per cent to 9,279.

Olivetti was L29 higher at L1,893 after European Union criticism of the government's decision to charge the Omnitel cellular telephone consortium for its licence.

Ambroveneto shed L95 to L4,371 after Tuesday's meeting of shareholders appeared to rule out any shake-up in its controlling group.

ZURICH featured a SFr13 recovery to SFr1,084 in UBS bearers, still down 9.9 per cent since the end of September when the board joined its battle for influence with Mr Martin Ebner. The SMI rose 15.4 to 2,581.

Nestlé picked up SFr10 to SFr1,254 after Credit Suisse revised upwards its earnings estimates for the coming three years. The forecasts were cut temporarily after Nestlé excluded specific US sales from its 10-month sales figures.

Roche certificates rose SFr100 to regain the SFr6,000 level for the first time since September 23, supported by news that its US subsidiary Roche Biomedical was to merge its laboratory business with National Health to form a new company with annual revenues of about $1.7bn.

BRUSSELS saw the Bel-20 index up 5.53 at 1,386.88, but this excluded Arbed, which fell BFr140 to BFr4,780. The Luxembourg-based steelmaker took a cautious view of 1995 prospects after the market closed on Tuesday.

STOCKHOLM ended lower after pressure on bank shares, which fell 2 per cent as the Affärsvärlden General index eased 4.10 to 1,463.80. Svenska Handelsbanken "B" declined SKr2 to SKr98, and S-E-Banken "A" by SKr1.10 to SKr43.30 in spite of a denial by the Swedish government that it planned some form of new tax on the industry.

VIENNA eased in light trade, with the ATX index down 3.27 to 1,026.83. But Economos soared Sch111 to Sch525 as trading resumed after a two-month suspension, the latter prompted by comments by the seal and washer maker that it was facing a liquidity crisis due to non-payment of debts by customers.

Written and edited by William Cochrane, John Pitt and Michael Morgan

FT-SE Actuaries Share Indices

Dec 14					THE EUROPEAN SERIES			
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1315.07	1315.84	1318.01	1315.78	1315.02	1315.02	1316.15	1318.82
FT-SE Eurotrack 200	1363.43	1363.62	1366.09	1363.46	1362.63	1362.19	1364.62	1365.54

	Dec 13	Dec 12	Dec 9	Dec 8	Dec 7
FT-SE Eurotrack 100	1309.30	1309.12	1321.56	1333.80	1335.86
FT-SE Eurotrack 200	1356.88	1355.35	1367.17	1384.30	1382.94

Base 1000 (26/10/90); Highday: 100 - 1318.94; 200 - 1366.54 Lowday: 100 - 1314.41 200 - 1361.98 † Partial

ASIA PACIFIC

Nikkei firm as Kuala Lumpur surges 4.1%

Tokyo

Equities moved ahead slightly in a technical correction to Tuesday's decline, *writes Robert Patton in Tokyo.*

The Nikkei 225 average improved 56.01 to 18,931.49 in volume estimated at 220m shares, little changed from the previous day's 218.65m. The index moved narrowly between 18,957.59 and 18,887.68 during the day.

The first-section Topix index edged up 0.37 to 1,498.04, while the capital-weighted Nikkei 300 firmed 0.30 to 276.79. Falls outnumbered rises by 524 to 415, with 226 issues flat and 73 stocks at their lows for the year. In London the ISE/Nikkei 50 index put on 2.01 at 1,248.66.

The market enjoyed early gains on a combination of arbitrage buying due to steadiness in Chicago futures overnight and buy orders placed by one life insurance company. A sharp rebound in the Hong Kong market softened otherwise bearish sentiment that prevailed throughout the day.

Manufacturers of semiconductor production equipment were mostly firmer on reports of sharply higher earnings for four leading companies in the year to March 31. Advantest, Kokusai Electric and Tokyo Electron all edged up Y10 to Y3,200, Y1,820, and Y3,030 respectively. Nikon receded Y8 to Y906.

Higher prices for cotton yarns gave textiles a boost. Nitto Boseki added Y8 at Y270 and Toyobo Y5 at Y382.

Major steel producers were lifted by foreign repurchasing and institutional buying. One-half of the day's 10 most active stocks were steel groups: Nippon Steel rose Y8 to Y357, its first gain in five trading days, Sumitomo Metal ticked up Y1 to Y308, Kobe Steel firmed Y3 to Y303 and Kawasaki Steel put on Y4 at Y397. But NKK, the day's volume leader, was off Y1 at Y284.

After four consecutive losing days, Japan Tobacco retrieved Y1,000 at Y907,000, but most traders agreed that the stock had yet to show evidence of bottoming. Nippon Telegraph and Telephone gained Y5,000 at Y838,000.

East Japan Railway dipped Y2,000 to Y469,000, while Odakyu Electric Rail held at Y707 in the day's fourth highest volume of 3.5m shares.

In Osaka, the OSE average edged down 19.20 to 20,738.49 in volume of 74.2m shares.

Roundup

Renewed strength was seen in some Pacific Rim markets.

KUALA LUMPUR surged 4.1 per cent, its largest single-day gain since January 14, helped by strong fund buying of blue chip stocks. The composite index rose 36.74 to 937.15, Brokers noted concerted buying by local and Singaporean institutions, led by the Malaysian investment house Permodalan Nasional.

SINGAPORE firmed on bargain hunting and the Straits Times Industrial index rose 24.68 or 1.2 per cent to 2,114.00. Demand for Malaysian shares traded over the counter took the UOB OTC index up by 28.45 or 2.7 per cent to 1,072.37.

HONG KONG advanced for a second day as late European institutional buying overcame bad news from the local property market when a plot of land was withdrawn from a government auction for lack of bidders. The Hang Seng index was up 147.60 or 1.9 per cent at 7,997.35 after touching 8,029.56.

Jardine Strategic rose HK$1.55 or 6.1 per cent to HK$26.80 and Hong Kong Electric added HK$1.40 or 7.3 per cent at HK$20.50.

SYDNEY was revived by the 1 percentage point rise in domestic interest rates which had been widely anticipated. The All Ordinaries index ended 10.1 ahead at 1,862.8, after 1,865.0, in turnover of A$448m.

Leading banks saw continued support on a switch out of regional banks and on firmer profits prospects for the coming 12 months.

SEOUL closed flat in thin trading after a tug-of-war between rebounding blue chips and broad selling of smaller-capitalised shares; the composite index gained 0.72 at 1,026.61.

BOMBAY recovered some ground after two days of heavy losses, on renewed buying interest among mutual funds.

The BSE 30-share index recouped 31.42 at 3,861.47 after the 135-point drop in the previous two days which followed the Congress party rout in regional elections at the weekend.

MANILA focused on a debut issue, Southeast Asia Cement Holdings, which forged ahead 23 per cent from its offer price of 1.50 pesos, while the composite index settled 2.69 easier at 2,617.90. Turnover expanded to 1.54bn pesos from Tuesday's 902.58m.

BANGKOK weakened on foreign selling, particularly in the telecommunications sector. The SET index lost 25.51 at 1,280.07 in turnover of Bt4.2bn.

The telecommunications sector index fell 4.75 per cent in turnover of Bt807.2m.